EXPLORATION BY INNOVATION

2019 ANNUAL REPORT

Carnarvon Petroleum Limited
ABN 60 002 688 851

CARNARVON
PETROLEUM LTD

CORPORATE DIRECTORY

Directors

PJ Leonhardt
Chairman

AC Cook
Managing Director

WA Foster
Non-Executive Director & Lead Independent 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

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

Share Registry

Link Market Services Limited
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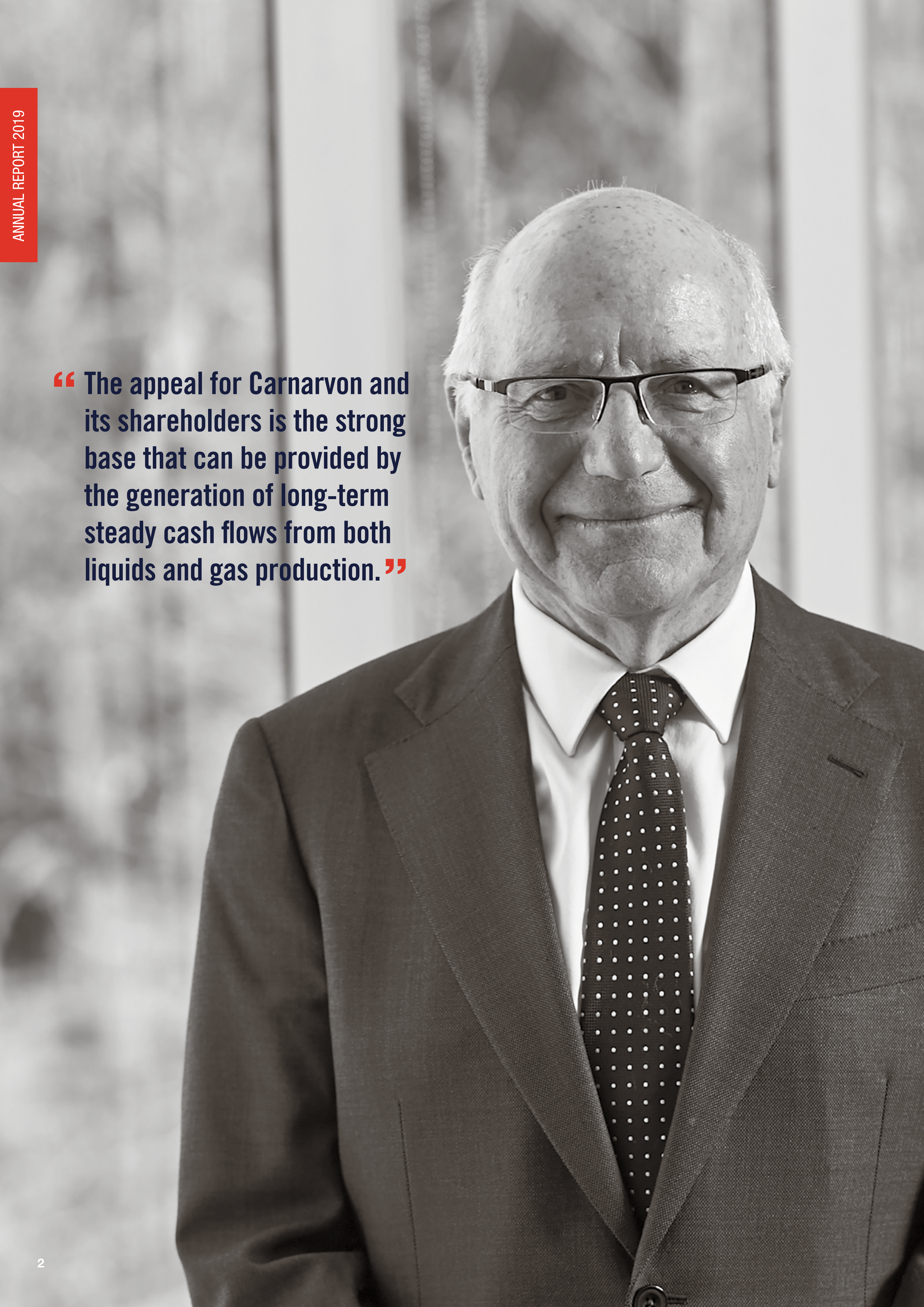
Stock Exchange Listing

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

ASX Code

CVN - ordinary shares

CONTENTS



"The appeal for Carnarvon and its shareholders is the strong base that can be provided by the generation of long-term steady cash flows from both liquids and gas production."

CHAIRMAN'S REVIEW

During the reporting period Carnarvon Petroleum Limited ("Carnarvon" or "Company") consistently pursued its strategy of exploring for large deposits of oil and gas on the North West Shelf ("NWS") of Australia.

Not only has this strategy yielded a number of exciting exploration projects for the Company, but I'm also pleased to report that substantial progress was achieved with the Dorado project during the year. Dorado has been independently assessed as containing a substantial quantity of both liquids (oil and condensate) and gas (free and associated with the oil). I eagerly anticipate the next 18 months or so, where I look forward to seeing the Dorado liquids resource firm into a development project for Carnarvon and our partner, Santos. This would be a crowning achievement for both organisations and would importantly transition Carnarvon into a production company. Uniquely, it may also generate the opportunity for Carnarvon to reinvest a portion of the cash flows from the liquids production into the development of the Dorado and Roc gas fields. The appeal for Carnarvon and its shareholders is the strong base that can be provided by the generation of long-term steady cash flows from both liquids and gas production.

During the reporting period, Carnarvon also advanced its 100% held Buffalo project. The Company's efforts are primarily focused on the redevelopment of a former oil field in an area of the permit that will shortly transition to Timor-Leste jurisdiction. Our team have been working constructively with the Timor-Leste authorities since the intent to change the Maritime Boundary Treaty was announced in March 2018. We are looking forward to working with the community and Government of Timor-Leste over the coming years as we seek to generate tangible benefits for Carnarvon shareholders and the people of Timor-Leste.

In February and July 2019, we completed two successful capital raisings at 33 and 39 cents per share respectively. I'd like to take this opportunity to welcome new shareholders to the Company and to also thank our existing shareholders for their ongoing support. As a result, Carnarvon's balance sheet has been significantly strengthened to provide appropriate capacity for our planned work programs.

The capital from these raisings, together with our existing cash, will be used most particularly to advance the Dorado project. Work is underway to advance the Buffalo project through the introduction of a new partner to the project. As these projects progress, we look forward to their value potential becoming clearer and we expect materially accretive to our current position.

I feel it's important to recognize the value that has been generated from Carnarvon's relatively small team of less than 20 people. In this regard I thank Adrian Cook and the Carnarvon team for continuing to bring their skills to bear with great energy and enthusiasm and for delivering outstanding results from what has been a long period of personal investment into the execution of our strategy.

This year the Board recognised that the Carnarvon team achieved a number of significant milestones. As such, the Board granted both a cash bonus and employee shares as part of Carnarvon's short and long-term incentive plans. Employee share issues 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 employees to achieve strategic goals and aligns staff rewards with growth in shareholder value. Further details can be found in the Remuneration Report section of the Annual Report.

As the Company's business matures and in particular, as it progresses towards production operations, the Board will expand its corporate practices to meet the changing circumstances. The Board is cognizant of the need to achieve an appropriate balance, over time, in relation to matters such as diversity, the environment, social license and corporate governance.

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 as we progress multiple projects through different phases of maturity.

Peter Leonhardt
Chairman

MANAGING DIRECTOR'S REVIEW

Carnarvon's business model seeks to identify oil and gas opportunities that are able to deliver low cost production on a globally comparable basis. Such assets provide value and insulation through-out the natural cycles in oil and gas prices over time.

Our business is currently focused on four key projects that all aim to fall within this low-cost measure as they mature into production assets. The four projects comprise advancing the Dorado liquids project, the Dorado and Roc gas project, the Buffalo oil field project and maturing the best exploration prospects within Carnarvon's portfolio.

The Dorado project achieved a number of important milestones this year, most notably in terms of the results from the successful Dorado-2 appraisal well, confirmation of substantial hydrocarbon volumes by independent resource auditor ERC Equipoise ("ERCE"), acquiring new development focused 3D seismic data over the Dorado and Roc areas and advancing the scoping studies for the Dorado liquids development.

At the time of writing, the Joint Venture was drilling the Dorado-3 appraisal well. This well is expected to provide another source of data on the reservoirs and hydrocarbon flow rates for development purposes.

The information gathered to date on Dorado provides strong support for the development of the project, particularly the case where the liquids are produced first, followed by a second phase of development which will add gas production to the liquids. A staged development and production concept should enhance the overall return on investment given the characteristics of the Dorado resource. This is because it allows for the staging of capital investments and the leveraging of early free cash flows to fund the later stages of the development costs.

In the nearer term, our objective is to complete the Front End Engineering and Design or FEED work for the liquids project in calendar 2020. The FEED work is expected to clarify the basis of design and the capital and operating cost structures. We will work with our partner, Santos to make a Final Investment Decision or FID late in 2020 to then enable the liquids project development work to commence.

Earlier this year the Joint Venture drilled the Roc South-1 prospect with the view to incorporating any discovered oil or gas into a Dorado production facility. The exploration target did not contain a commercial resource but the result does not detract from the overall thematic of discovering new high margin near field resources around Dorado or further afield where the quantum could support a new low-cost stand-alone development.

In addition to the work on and around the Dorado and Roc discoveries, Carnarvon has also been maturing the Buffalo oil field redevelopment. Carnarvon secured the permit in 2016 and since then has undertaken significant 3D seismic reprocessing using the latest technologies employed within the industry. This work has resulted in an initial focus on the former Buffalo oil field and the development of a plan to test for untapped attic oil within the former oil field. In progressing this work, Carnarvon recently received environmental plan approvals to drill three wells into the field.

As outlined by Peter Leonhardt, the Carnarvon team has also been working with the Australian and Timor-Leste Governments to effect the change in the maritime boundary. This will result in part of the Australian awarded permit falling under Timor-Leste jurisdiction. A consequence of this change is that Carnarvon and the Timor-Leste Government will execute a Production Sharing Contract or PSC to cover the terms of operation for Carnarvon. The PSC is expected to be signed in calendar 2019 with fiscal terms that are broadly equivalent to those in Australia. The additional piece to advancing the Buffalo oil field redevelopment is securing funding to drill the first well and develop the field for production. Carnarvon is currently in discussions with a number of parties interested in becoming Joint Venture partners to advance the project by providing funding and production expertise. The objective in seeking partner participation for the project arises from Carnarvon's capital management plans that are primarily focused on advancing the Dorado liquids project.

In a similar regard, Carnarvon intends to continue to mature and seek expressions of interest from parties to join it in its other exploration projects. The Labyrinth, Eagle and Buffalo (Australian portion) projects are all progressing technically and contain attractive opportunities to present to prospective partners in the coming year.

Adrian Cook
Managing Director and Chief Executive Officer

“Our business is currently focused on four key projects that all aim to fall within this low-cost measure as they mature into production assets.”

OVERVIEW OF OPERATIONS

The highlights for the Company during the 2019 financial year were:

- **Significant oil and gas discovery in the Dorado-1 exploration well**
- **Dorado-2 appraisal well successful confirms the major oil and gas resource in Dorado**
- **The Joint venture now has confidence to progress Dorado development plans**
- **New 3D seismic acquisition commenced to further unlock Bedout sub-basin potential**
- **Significant progress made towards redeveloping the Buffalo oil field**
- **Progressed work to unlock the potential of the suite of exploration assets across the North West Shelf**


Buffalo Project
Eagle Project
Condor Project
Darwin
Katherine
Truscott
Wyndham
Kununurra
Derby
Broome

OPERATING AND FINANCIAL REVIEW

Phoenix Project Background

In 2009, Carnarvon secured an interest in the Bedout Sub-basin acreage offshore of Western Australia comprising four exploration permits (WA-435-P, WA-436-P, WA-437-P and WA-438-P). The permits lie approximately 110km from the coast, offshore of Port Hedland in Western Australia in a region which had been traditionally underexplored.

Carnarvon, along with its Joint Venture partner undertook an extensive geological study, acquiring modern 3D seismic which confirmed two significant prospects in Phoenix South within WA-435-P and Roc in WA-437-P. The venture was then expanded with new partners being introduced to fund exploratory drilling costs.

Encouraged by the successful discoveries, the Joint Venture acquired additional high-quality 3D seismic data over the permits and surrounding areas.

THE NOBLE TOM PROSSER RIG
PHOTOGRAPH COURTESY OF NOBLE CORPORATION

The Phoenix South-1 well was drilled in the WA-435-P permit in 2014 discovering light oil. Phoenix South-1 was the first well drilled in the area since the early 1980's and was integral to re-exploring the Bedout Sub-basin. The discovery encouraged the Joint Venture to drill the Roc-1 well in WA-437-P in late 2015 which discovered condensate rich gas.

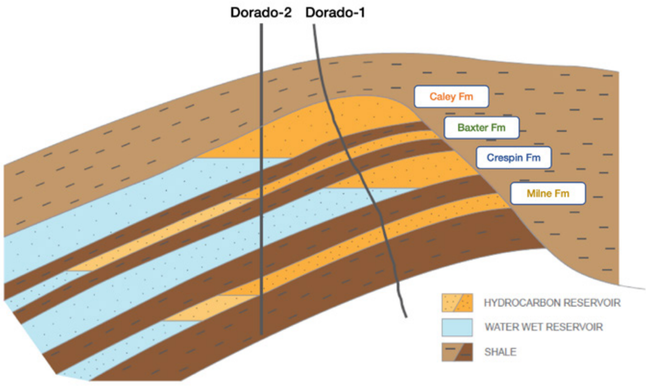
The Roc-2 well was drilled in late 2016 to appraise the Roc-1 discovery. This well was highlighted by a historic flow test which exceeded Carnarvon's expectations. The flow test successfully confirmed the ability of the hydrocarbons to flow from the quality Caley reservoir at depths of over 4,000 metres. The Roc and Phoenix discoveries were significant in breaking industry preconceptions in Australia around the ability of hydrocarbons to flow from these depths, in particular from Triassic reservoirs.

Encouraged by the successful discoveries, the Joint Venture acquired additional high-quality 3D seismic data over the permits and surrounding areas. Through utilising the new 3D seismic, further geological studies confirmed additional prospects including Dorado which had been significantly de-risked by the Phoenix South and Roc wells.

The Roc and Phoenix discoveries were significant in breaking industry preconceptions in Australia around the ability of hydrocarbons to flow from these depths, in particular from Triassic reservoirs.

OPERATING AND FINANCIAL REVIEW

FIGURE 1: SCHEMATIC IMAGE OF THE DORADO STRUCTURE AND COMPLETED WELL LOCATIONS.



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

The Dorado-1 exploration well was a landmark outcome for the Bedout area and the Company, discovering a significant light oil column along with gas and condensate in a number of reservoirs.

Hydrocarbons were recovered from four reservoirs in the well encompassing the Caley, Baxter, Crespin and Milne Members with a total hydrocarbon net pay of 132 metres. The quality of the reservoirs encountered were also better than pre-drill estimates.

Importantly, the well encountered high quality and productive reservoirs in each target.

The significant nature of the Dorado discovery led the Joint Venture to move quickly to appraise the results. The Dorado-2 appraisal well was completed in June 2019 encountering light oil and condensate rich gas in pressure communication with the original exploration well, confirming Dorado as a major oil and gas resource. The Dorado-2 well was located around 2km from the Dorado-1 well.

In the Caley reservoir, the Dorado-2 well intersected an oil-water contact as planned which enabled the refinement of the range of recoverable oil resource. High quality oil was extracted from the reservoir and the excellent reservoir properties encountered were comparable to those discovered at Dorado-1.

Condensate rich gas was extracted from the Baxter reservoir with wireline logging confirming that a hydrocarbon column was encountered with no gas-water contact, as expected. Pressure data indicates that the column likely extends for several hundred meters below the depth encountered in the well.

Samples from the Milne reservoir were recorded as oil bearing on the rig. The very light nature of this oil may result in this hydrocarbon being re-classified as a highly condensate rich gas. Importantly the reservoirs down to the Milne level were also of high quality which will be important in development.

Following the results of the Dorado appraisal, Carnarvon prepared an update of the volumetric estimates which can be found on page 18.

The Roc South-1 well commenced before the end of the financial year and was completed in July 2019. The purpose of the Roc South well was to add tie-in resources to the nearby Dorado field. The target reservoirs were drilled and interpreted on wireline logs as not containing commercial quantities of producible hydrocarbons.

The information gained from the Roc South-1 well improves the regional understanding and provides more data on the reservoir. The Roc South-1 result does not impact the resource volumes estimated in Dorado.

During the year, the Joint Venture commenced a new 3D seismic survey over the Dorado, Roc and near-field exploration prospects. The survey is designed to improve on the existing 3D, specifically over the Caley to Milne intervals. The new data will also support the Dorado oil and gas field development and assist with refining numerous exploration targets within Carnarvon's Bedout Sub-basin permits.

Subsequent to the end of the financial year, the Dorado-3 appraisal well commenced drilling. The Dorado-3 well, which is located approximately 900 metres from the Dorado-1 well, will include drill stem tests which will be critical to understand reservoir performance and obtain the fluid samples required for the design of the Dorado production facilities. The results from the Dorado-3 well will be instrumental in preparing for a Final Investment Decision which the Joint Venture is targeting for late in the 2020 calendar year.

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

The string of discoveries, most significantly the Dorado discovery, has redefined the Bedout Sub-basin as a proven hydrocarbon province. Importantly, there is still significant exploration prospectively within the approximate 22,000km^2 of the greater Phoenix area which is still relatively underexplored.

The standout hydrocarbon prospects identified to date are Pavo and Apus, which have been de-risked following the Dorado discovery. Pavo and Apus are estimated by Carnarvon to contain 82 million barrels and 612 million barrels respectively of oil recoverable (Gross Pmean) (refer to page 19). The scale of these prospects mean they will play an important part in the future exploration of the greater Phoenix area.

The new 3D seismic survey over Dorado, Roc and nearby prospects commenced during the year will play a key role in the further exploration of the area. The interpretation and analysis of this new data will be instrumental in defining the follow up exploration targets.

Some of the additional prospects and leads surrounding the Dorado, Roc and Phoenix South areas are listed in the Prospective Resource table on page 19. The results achieved to date from the 2019 drilling campaign and the latest 3D seismic survey will be analysed to gain further understanding over the prospectively in the region and to update the existing prospect and lead inventories over the coming months.

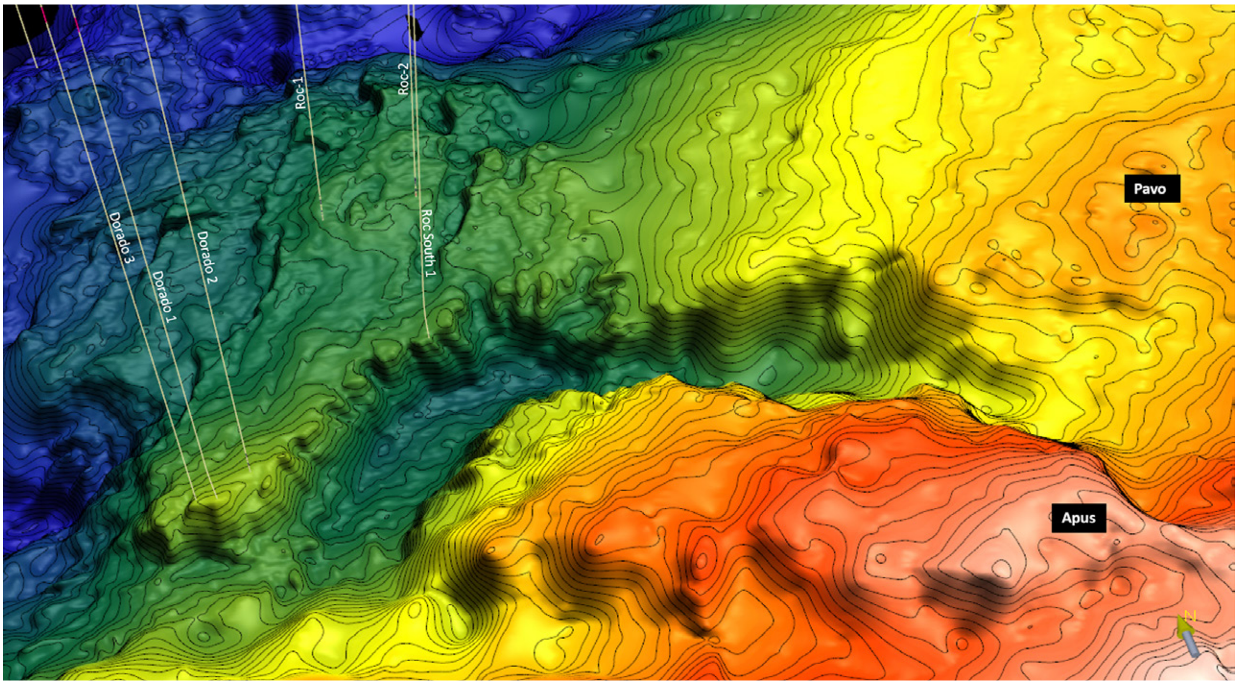


FIGURE 2: MAP OF TOP CALEY/TR15 WITH WELL LOCATIONS AND SIGNIFICANT PROSPECTS IN THE BEDOUT SUB-BASIN.

OPERATING AND FINANCIAL REVIEW

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

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

The initial technical work was focused on reprocessing the 3D seismic data using a number of new technologies, including 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.

In March 2018, the Australian and Timor-Leste Governments signed a Maritime Boundary Treaty which will redefine the maritime boundary between the two countries. The Buffalo project will be 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, however, will remain within Australia's jurisdiction, which contains undrilled exploration prospects.

Carnarvon has now completed its discussions and agreed the terms of the Production Sharing Contract ("PSC") with the Timor-Leste government agency Autoridade Nacional do Petróleo e Minerais ("ANPM"). The Company now has a clearer timeline for the official signing the PSC and the ratification of the Maritime Boundary Treaty which is expected to occur in Calendar 2019. Once the process is finalised, Carnarvon will be in a position to progress with its plans to drill the first Buffalo well to confirm the presence of the attic oil and to progress the Buffalo oil field redevelopment project.

During the year, Carnarvon made significant progress towards its drilling preparations and project planning for the Buffalo oil field redevelopment. This included the acceptance by NOPSEMA of the Company's environmental plan for drilling up to three Buffalo wells. The Government of Timor-Leste has also agreed to endorse the environmental report approved by the Australian regulator. The bilateral co-operation has been important in enabling Carnarvon to progress its planning whilst the boundary change process completes.

Additionally, Carnarvon undertook a field surveillance survey over the proposed Buffalo Field Redevelopment Area in late 2018. The data from the survey indicated that there are no impediments to locating the Buffalo wells in the surface locations that are most ideal for targeting the identified attic of oil.

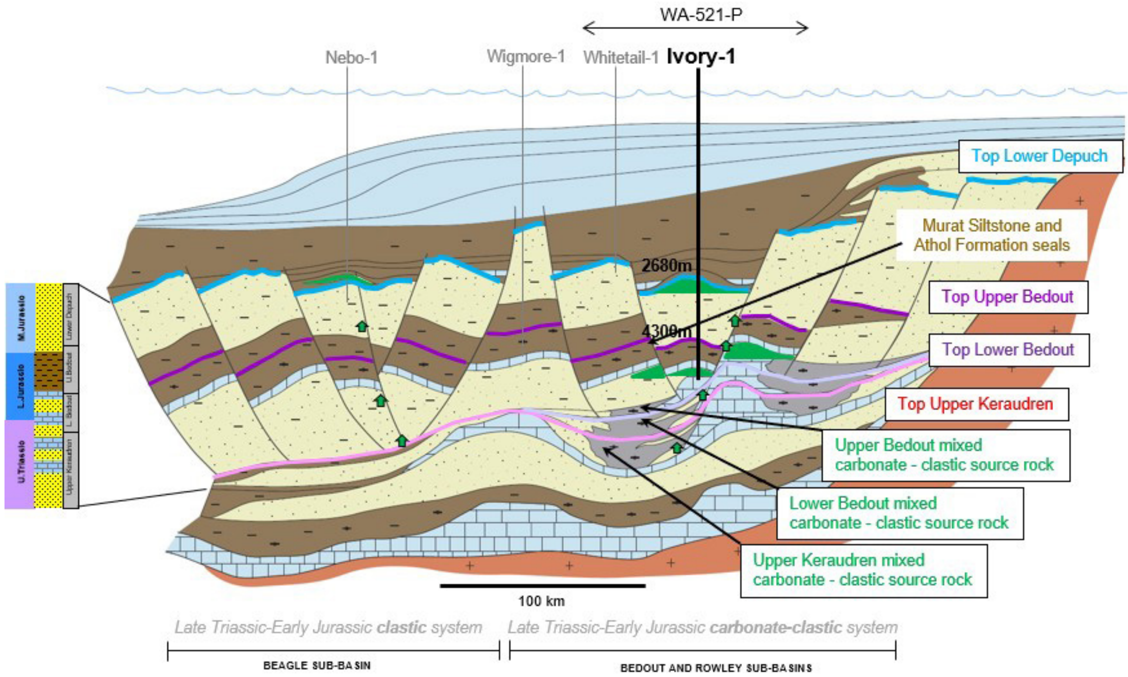
A significant portion of the WA-523-P exploration permit will still remain in Australian waters. Carnarvon continued its technical analysis during the year to identify additional exploration potential within the permit. The work to date has been very promising with mapping of the existing seismic identifying numerous prospects and leads.

Carnarvon has also commenced a process to introduce a partner to the Buffalo project. Acquiring a suitable partner will assist with financing the project which will be vital as Carnarvon works towards bringing both the Dorado and Buffalo fields into production.

The work to date has been very promising with mapping of the existing seismic identifying numerous prospects and leads.

OPERATING AND FINANCIAL REVIEW

FIGURE 3: SCHEMATIC PLAY CONCEPT FOR THE LABYRINTH PROJECT.



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

The Labyrinth project, within the WA-521-P permit, is located in the Roebuck Basin in the North West Shelf of Western Australia.

This frontier acreage, which lies directly to the north of the Company's Bedout permits, was acquired by Carnarvon in 2016 and has been significantly de-risked following the Bedout discoveries. Carnarvon holds 100% equity in the WA-521-P permit, comprising an area of approximately 5,057km^2.

The Discovery of hydrocarbons in the Late Triassic section of the Phoenix South-3 well, has enhanced confidence in the hydrocarbon charge within the adjoining WA-521-P Permit. Carnarvon is encouraged by the Late Triassic oil prone source rocks in the Labyrinth permit which are currently within the oil window. This has led to comparison with the proven Late Triassic petroleum systems of the Birds Head area of West Papua, Indonesia and Timor Island.

The nearby Nebo-1 well drilled in the early 1990's and flowing around 2,000 barrels of oil per day on test, demonstrated that Triassic oil can migrate vertically into Jurassic reservoirs. With the WA-521-P permit containing several large Jurassic structures across multiple reservoirs, there is considerable potential contained within the Labyrinth project.

The standout target is the Ivory prospect, estimated to contain 420 million barrels of mean recoverable oil over two levels (refer to page 19). Ivory is located in 350 metres water depth with these 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.

With the industry's increased focus on the region following the Dorado discovery, the nearby Labyrinth project represents a compelling exploration opportunity.

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.

Success in the Ivory target would open a new play fairway across 16 additional prospects and leads. With the geological analysis to date identifying 1.5 billion barrels of recoverable prospective resources within these prospects across the permit (refer to page 19), there is significant follow up potential.

The prospects within the Labyrinth project could be further strengthened by upgraded seismic data which would in turn increase the confidence to drill. As such, Carnarvon has begun planning to acquire enhanced seismic over the Ivory prospect which is expected to commence in 2020.

Carnarvon has also commenced a farm out process to acquire a suitable partner to join the project and evaluate the significant oil prospects. With the industry's increased focus on the region following the Dorado discovery, the nearby Labyrinth project represents a compelling exploration opportunity.

Condor and Eagle Projects – AC/P62 and AC/P63 (Carnarvon 100% and operator)

Carnarvon was awarded the AC/P62 permit in November 2017 and the AC/P63 permit in February 2018 within the Vulcan sub-basin. Carnarvon identified the opportunity to secure these assets whilst developing its extensive regional database across the North West Shelf of Australia.

The Vulcan sub-basin is a proven and prolific region within the greater Bonaparte basin, containing numerous oil fields. The acquisition of brand new MC3D Cygnus pSDM seismic data has been a game changer for the basin which has historically been hampered by poor quality vintage data.

With considerable assistance from the improved data, Carnarvon has identified several exciting prospects and leads across the Condor and Eagle projects. The technical work to date has successfully de-risked the reservoir, presence of oil and the quality of hydrocarbons in the projects. The recent Orchid discovery, nearby to the Eagle permit, has also enhanced the potential of the identified prospects.

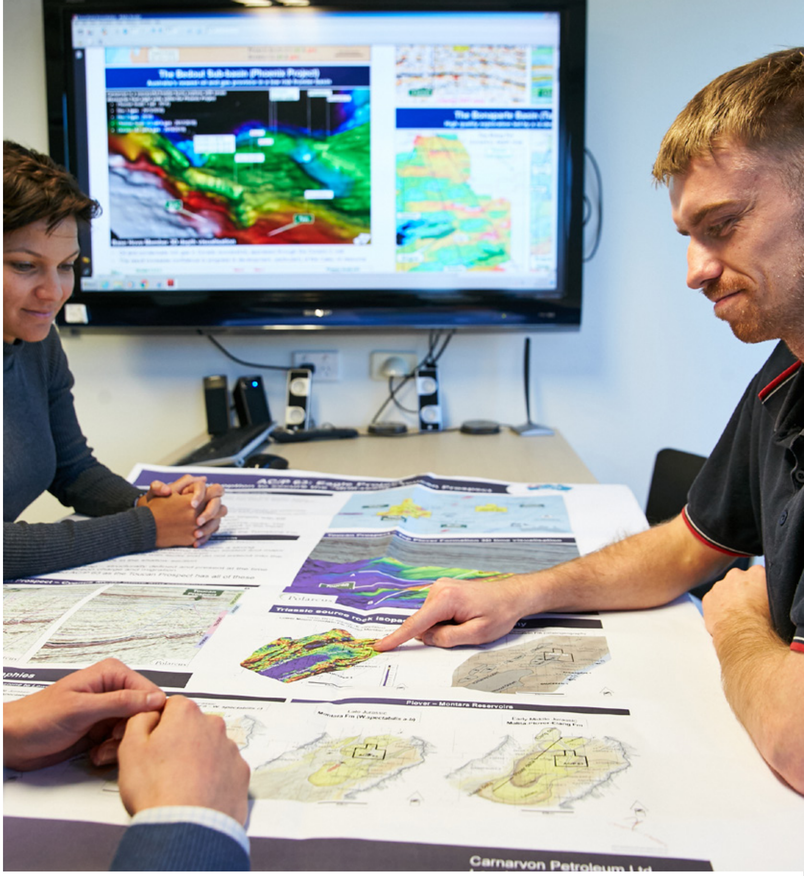
The standout target identified to date within the AC/P63 permit is the Toucan prospect. Toucan is a large, Mid Jurassic, fault bounded structure with 6km^2 areal extent and 220m structural closure. The structure sits on the North-east flank of the Skua Trough, with access to migration of hydrocarbons generated by the proven Middle and Late Jurassic (Lower Vulcan and Plover) oil-prone source rocks.

The nearby discoveries of Skua, Talbot, Cassini and Challis oil fields confirm effective migration from the Skua and other surrounding kitchens which gives considerable optimism for the Toucan prospect.

In AC/P62, several opportunities have been identified, including the Birdie and Chick prospects and the Vulture lead. These prospects and lead represent conventional structural closures at the Late Triassic, Nome Formation level, with hydrocarbons sourced by proven Lower Vulcan or Plover formations and sealed by Late Jurassic marine shales.

With the technical work moving closer to completion, Carnarvon intends to begin seeking farm-in interest for the Condor and Eagle projects in late 2019.

OPERATING AND FINANCIAL REVIEW



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

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

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 19.

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 with minimal commitments in the first three years. Following this the Joint Venture has the option to commit to an exploration well in the final 2 years.

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

The Maracas Project, located in WA-524-P, is situated on the flanks of the Dampier sub-basin, an important part of the Greater Carnarvon Basin, on Western Australia's North West Shelf. This large 1,210km^2 permit is located on the Enderby Terrace, which contains a number of untested play types in a proven basin which includes the Stag, Wandoo and Legendre oil fields, plus the Reindeer gas field.

The technical team has completed their interpretation of the newly reprocessed 3D seismic data and have identified three late Permian aged prospects. To test the validity of these prospects the team commenced a Permian focused reservoir quality study, which aims to analyse the condition of the potential reservoir, and is completing a regional source rock study to determine the effectiveness of the petroleum source rocks in the region.

Specialist consultants were also used to perform a fault seal analysis for each of the identified prospects, with the purpose to further understand the trapping nature of the tilted fault block configuration. Fluid inclusion screening was performed on a key well within the permit, to assess the origin of the residual oil in that well and to subsequently determine if the oil was related to the same play system as the Permian prospects. Carnarvon is close to completing all of its work commitments by the end of permit year 3 in September.

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 commercial or technical hurdle must be overcome prior to there being confidence in the eventual production of the volumes.

Carnarvon does not yet have any reported reserves.

Contingent Resources

Contingent resources are less certain than reserves. These are resources that are potentially recoverable but not yet considered mature enough for commercial development due to technological or business hurdles. For contingent resources to move into the reserves category, the key conditions, or contingencies, that prevented commercial development must be clarified and removed. As an example, all required internal and external approvals should be in place or determined to be forthcoming, including environmental and governmental approvals. There also must be evidence of firm intention by a company's management to proceed with development within a reasonable time frame (typically 5 years, though it could be longer).

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

OPERATING AND FINANCIAL REVIEW

Gross Contingent Resources

		Light Oil and Condensate			Free & Associated Gas			Barrels of Oil Equivalent		
Gross at 30 June 2018		MMSTB	MMSTB	MMSTB	BSCF	BSCF	BSCF	MMBOE	MMBOE	MMBOE
	Permit	1C	2C	3C	1C	2C	3C	1C	2C	3C
Dorado	**WA-437-P**	-	-	-	-	-	-	-	-	
Roc	**WA-437-P**	12	20	35	204	332	580	48	78	137
Phoenix South	**WA-435-P**	7	17	30	-	-	-	7	17	30
Phoenix	**WA-435-P**	2	7	16	-	-	-	2	7	16
Buffalo	**WA-523-P**	15	31	48				15	31	48
Total		**36**	**74**	**128**	**204**	**332**	**580**	**72**	**133**	**230**

		Light Oil and Condensate			Free & Associated Gas			Barrels of Oil Equivalent		
Technical Revision		MMSTB	MMSTB	MMSTB	BSCF	BSCF	BSCF	MMBOE	MMBOE	MMBOE
	Permit	1C	2C	3C	1C	2C	3C	1C	2C	3C
Dorado [(i)]	**WA-437-P**	86	162	285	367	748	1,358	176	344	614
Roc	**WA-437-P**	-	-	-	-	-	-	-	-	-
Phoenix South	**WA-435-P**	-	-	-	-	-	-	-	-	-
Phoenix	**WA-435-P**	-	-	-	-	-	-	-	-	-
Buffalo	**WA-523-P**	-	-	-	-	-	-	-	-	-
Total		**86**	**162**	**285**	**367**	**748**	**1,358**	**176**	**344**	**614**

		Light Oil and Condensate			Free & Associated Gas			Barrels of Oil Equivalent		
Gross at 30 June 2019		MMSTB	MMSTB	MMSTB	BSCF	BSCF	BSCF	MMBOE	MMBOE	MMBOE
	Permit	1C	2C	3C	1C	2C	3C	1C	2C	3C
Dorado	**WA-437-P**	86	162	285	367	748	1,358	176	344	614
Roc	**WA-437-P**	12	20	35	204	332	580	48	78	137
Phoenix South	**WA-435-P**	7	17	30	-	-	-	7	17	30
Phoenix	**WA-435-P**	2	7	16	-	-	-	2	7	16
Buffalo	**WA-523-P**	15	31	48				15	31	48
Total		**122**	**236**	**413**	**571**	**1,080**	**1,938**	**233**	**446**	**796**

Net Contingent Resources

		Light Oil and Condensate			Free & Associated Gas			Barrels of Oil Equivalent		
Net at 30 June 2019		MMSTB	MMSTB	MMSTB	BSCF	BSCF	BSCF	MMBOE	MMBOE	MMBOE
	Permit	1C	2C	3C	1C	2C	3C	1C	2C	3C
Dorado	**WA-437-P**	17	32	57	73	150	272	35	69	123
Roc	**WA-437-P**	2	4	7	41	66	116	10	16	27
Phoenix South	**WA-435-P**	1	3	6	-	-	-	1	3	6
Phoenix	**WA-435-P**	0	1	3	-	-	-	0	1	3
Buffalo	**WA-523-P**	15	31	48	-	-	-	15	31	48
Total		**37**	**72**	**121**	**114**	**216**	**388**	**62**	**120**	**207**

[(i)] Dorado volumes added as at 30 June 2019 as per ASX announcement 15 July 2019.

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

	Permit		Light Oil and Condensate MMBBL P90	MMBBL P50	MMBBL Pmean	MMBBL P10	Free & Associated Gas BSCF P90	BSCF P50	BSCF Pmean	BSCF P10	Barrels of Oil Equivalent MMBOE P90	MMBOE P50	MMBOE Pmean	MMBOE P10	Probability Geological Success	Risked MMBOE Pmean
Pavo Caley	WA-438-P	30%	3	19	25	54	1	9	32	75	3	20	30	67	34%	10.3
Apus Caley [i]	WA-437/8-P	20/30%	2	18	25	56	1	9	33	75	2	20	31	69	21%	6.5
Apus Baxter [i]	WA-437/8-P	20/30%	1	12	24	63	-	6	31	68	1	13	29	74	21%	6.0
Apus Crespin [i]	WA-437/8-P	20/30%	2	25	39	96	1	12	52	116	2	27	49	116	21%	10.0
Apus Milne [i]	WA-437/8-P	20/30%	8	41	55	121	2	21	73	164	8	44	68	149	21%	13.9
Roc-2 C/D	WA-437-P	20%	1	1	1	2	11	22	24	40	2	5	6	9	66%	3.7
Roc Satellites	WA-437-P	20%	-	1	2	4	6	23	29	60	1	5	7	14	45%	3.0
Bewdy	WA-437-P	20%	-	2	6	14	-	2	6	17	-	2	7	17	32%	2.1
Bottler	WA-437-P	20%	-	3	6	15	-	-	-	-	-	3	6	15	32%	2.0
Peng	WA-437-P	20%	-	1	2	5	1	4	5	9	-	2	3	7	40%	1.2
Mensa Caley	WA-435-P	20%	1	6	10	24	15	61	89	200	4	17	26	59	17%	4.4
Mensa Barret (Phoenix)	WA-435-P	20%	1	14	33	84	-	-	-	33	1	14	33	89	38%	12.4
Lupus	WA-435-P	20%	-	-	2	4	1	16	69	89	-	3	14	20	14%	1.9
Indus	WA-435-P	20%	-	1	3	8	2	37	69	178	1	8	16	40	14%	2.2
Ara [ii]	WA-435/6-P	20/30%	1	19	43	114	-	-	-	-	1	19	43	114	10%	4.3
Bandy Rankin [ii]	WA-435/6-P	20/30%	1	16	36	93	-	-	-	-	1	16	36	93	14%	5.0
Belgravia	WA-155-P	28.50%	-	1	5	13	5	51	125	315	1	10	27	68	29%	7.9
Ivory	WA-521-P	100%	20	170	322	828	-	-	-	-	20	170	322	828	18%	58.0
Ivory deep	WA-521-P	100%	6	48	99	243	-	-	-	-	6	48	99	243	13%	12.9
Mouse	WA-521-P	100%	40	202	278	618	-	-	-	-	40	202	278	618	18%	50.0
Mouse deep	WA-521-P	100%	3	33	62	152	-	-	-	-	3	33	62	152	13%	8.1
Zebra	WA-521-P	100%	20	179	382	924	-	-	-	-	20	179	382	924	13%	49.7
Hammock deep	WA-521-P	100%	8	112	249	630	-	-	-	-	8	112	249	630	13%	32.4
Mahogany	WA-521-P	100%	22	94	148	332	-	-	-	-	22	94	148	332	13%	19.2
Weaver	WA-521-P	100%	3	25	44	106	-	-	-	-	3	25	44	106	13%	5.7
Total			**146**	**1,043**	**1,901**	**4,602**	**44**	**271**	**637**	**1,437**	**154**	**1,091**	**2,012**	**4,854**		**332.7**

[i] Note Apus prospect lies across WA-437-P and WA-438-P in which Carnarvon has 20% and 30% equity respectively

[ii] Note Ara and Bandy prospects lies across WA-435-P and WA-436-P in which Carnarvon has 20% and 30% equity respectively

OPERATING AND FINANCIAL REVIEW

Notes on Petroleum Resource Estimates

Unless otherwise stated, all petroleum resource estimates are quoted as at 30 June 2019 at standard oilfield conditions of 14.696 psi (101.325 kPa) and 60 degrees Fahrenheit (15.56 deg Celsius).

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

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

Conversion from gas to barrels of oil equivalent is based on Gross Heating Value. The conversion is based on composition of gas in each reservoir and is 4.07 Bscf/MMboe, 3.85 Bscf/MMboe, 4.16 Bscf/MMboe, 4.45 Bscf/MMboe, and 3.87 Bscf/MMboe for the Upper Caley, Caley associated gas, Crespin, Baxter and Milne reservoirs, respectively, that make up the Dorado Contingent Resource. For all other gas resources the Company uses a constant conversion factor of 5.7 Bscf/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 loss $8,021,000 for the financial year ending 30 June 2019 (2018: profit: $1,425,000).

Carnarvon's balance sheet remained strong with cash and cash equivalents of $73,900,000 (2018: $63,606,000), 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. Carnarvon raised $47,467,000 after fees. The Placement provided additional funds for Carnarvon's appraisal and exploration activities, engineering and design work for Dorado and a new 3D seismic acquisition over the Dorado and Roc fields and over prospective exploration prospects within the Bedout sub-basin.

The Company invested a further $38,129, 000 on its exploration assets. Most of these costs were in relation to the drilling costs for the Dorado-1, Dorado-2, Phoenix South-3 and Roc South-1 wells within the Company's Phoenix project. In addition, the Company continued its preparatory work for the Buffalo oil field redevelopment and other exploration projects.

The Company received $2,703,000 during the year in relation to an insurance recovery claim. The claim reimbursed a significant portion of the costs incurred to drill the Phoenix South-3 well which was designed as a re-drill of the Phoenix South-2 well. The Phoenix South-2 well was successfully controlled following higher than expected pressures, which enabled the Claim.

The Company recorded A$629,000 in other financial assets (2018:2,297,000) as at 30 June 2019. This represents the current value of the shares held by Carnarvon in CWX Global Limited (formerly Loyz Energy Limited) ("CWX"). The movement reflects the decline in the value of the shares during the year which has been recorded on the income statement for the year ended 30 June 2019. The shares were received as settlement of the deferred consideration asset relating to the 2014 sale of half of Carnarvon's former interests in its producing concessions in Thailand.

Carnarvon spent $1,666,000 (2018: $2,204,000) in new venture and advisory costs as the Company continues to develop its significant regional geological database. This has been integral in identifying highly prospective opportunities within the North-West shelf of Australia to add to the Company's string of successful discoveries.

During the financial year there was an unrealized gain on foreign exchange of $2,478,000 (2018: $1,751,000) due to the effect of a depreciation of AUD against the Carnarvon's USD cash and financial assets.

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

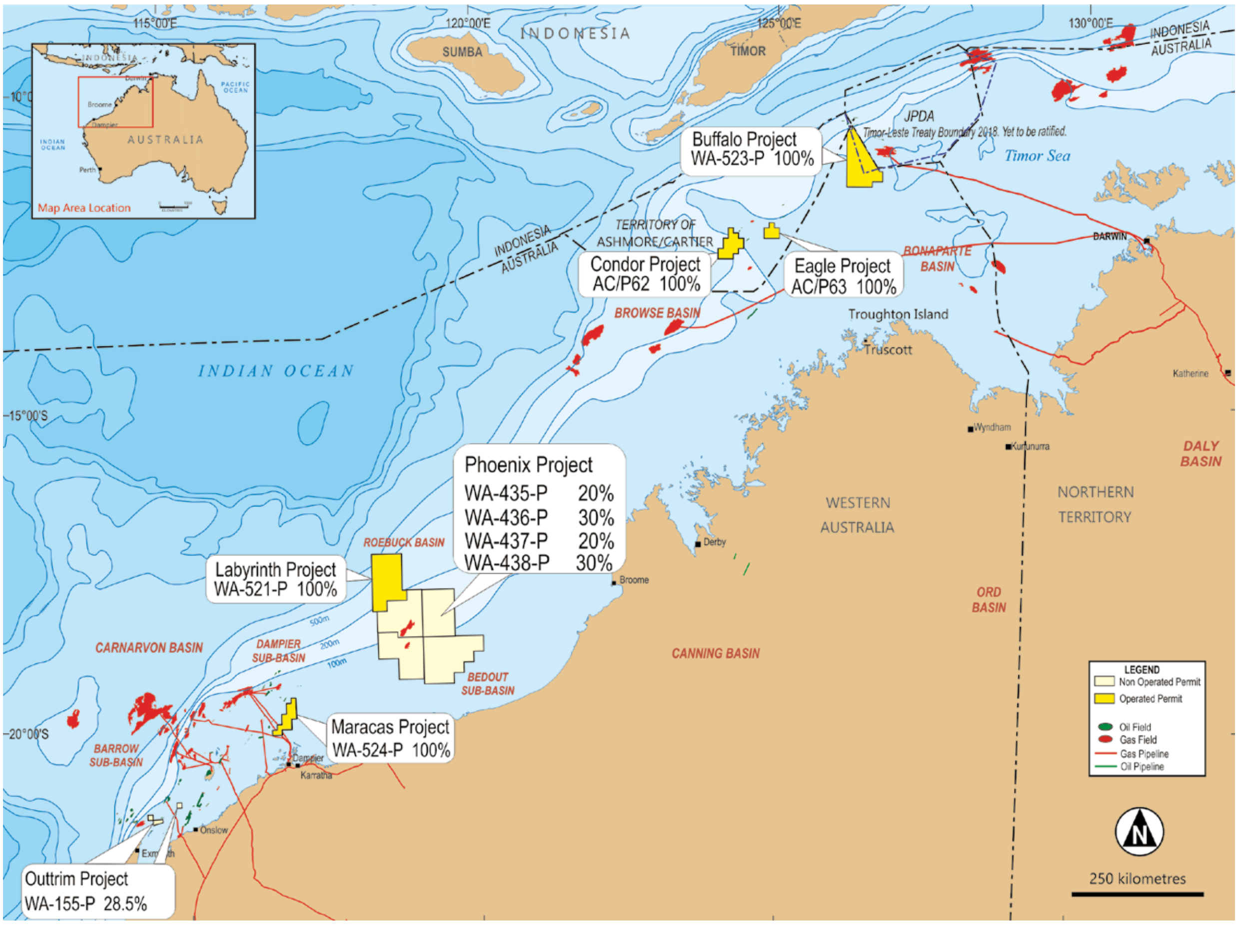


FIGURE 4: CARNARVON INTERESTS AS AT 30 JUNE 2019 IN AUSTRALIA.

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
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%	Santos Limited (i)	80%	G & G Studies
WA-436-P	Roebuck	30%	Santos Limited (i)	70%	G & G Studies
WA-437-P	Roebuck	20%	Santos Limited (i)	80%	G & G Studies, Appraisal
WA-438-P	Roebuck	30%	Santos Limited (i)	70%	G & G Studies
WA-155-P	Barrow	28.5%	Santos Limited (i)	71.5%	G & G Studies
EP407	Perth	2.50% of 42.5% (ii)	-	-	Appraisal

Note:

(i) Denotes operator where Carnarvon is non-operator partner

(ii) Carnarvon has an overriding royalty interest in these assets

DIRECTORS' REPORT

Statutory Information

The directors present their report together with the financial report of the Group, being the Company, its controlled entities, and the Group's interest in jointly controlled assets, for the financial year ended 30 June 2019, 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 retired as a member of the Audit and Risk Committee and the Remuneration and Nomination Committee on 12 April 2019.

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 the Company's Lead Independent Director, Chairman of the Audit and Risk Committee and a member of the Remuneration and Nomination Committee. Mr Foster Retired as the Chairman of the Remuneration and Nomination Committee on 12 April 2019.

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.

DIRECTORS' REPORT

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.

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

Company Secretary

Mr Thomson Naude was appointed Company Secretary in November 2013. Mr Naude is a qualified Chartered Accountant, a member of Governance Institute of 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	8
SG Ryan	8	8

(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 [1]	2	2
WA Foster	2	2
P Moore	2	2
SG Ryan [2]	-	-

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

1 Mr Leonhardt retired from the Audit and Risk Committee on 12 April 2019.
2 Mr Ryan was appointed to the Audit and Risk Committee on 12 April 2019.

Remuneration Report (Audited)

Overview

This section provides an overview of Carnarvon's remuneration principles and practices and should be read in conjunction with the more comprehensive detail that is contained within this Remuneration Report.

Carnarvon's business is such that a relatively small number of individuals can generate significant returns for shareholders. This was achieved in the 2019 financial year wherein the share price increased 300% year on year.

Carnarvon's remuneration policies, as determined by the Board, are designed to deliver short and long-term benefits for the Company and its shareholders. These include attracting, retaining and incentivising quality staff while ensuring remuneration practices operate within appropriate frameworks.

During the year the Board determined that the Company's executives and staff outperformed their set goals across a number of key metrics. Notwithstanding these achievements, a number of fixed and Board discretionary limits were triggered. For example, the short-term incentive plan contains a limit of 50% of an individual's base salary. In addition. given the share price and business performance during the year, the Board exercised its discretion to reduce Executive and staff entitlements under the long-term incentive plan as outlined below.

Short term incentive plan ("STIP"):

The STIP is assessed for all Executives and staff and in the current year was awarded on individual and team contributions toward the achievement of the following strategic objectives and hurdles:

- Dorado-1 exploration success;
- Dorado-2 appraisal success;
- Share price increase in absolute terms and relative terms to peer group from 30 June 2018 level;
- Buffalo PSC signing materially progressed;
- Key Buffalo governmental drilling approvals obtained;
- Preparedness to operate Buffalo materially advanced;
- Business Management System, risk management and processes advanced for enhanced business operations.

Long term incentive plan ("LTIP"):

The Company's LTIP contains two hurdle components. The first is share price performance relative to a peer group. The second is based on specific measurable objectives that are linked to the Company's long-term strategic objectives. All Executives and staff participate in the Company's LTIP which is an Employee Share Plan ("ESP") scheme.

- Share price growth during the financial year was 300% and materially exceeded all of the Company's peer group's performance;
- Accordingly, the Board approved the maximum entitlement to Executives and staff based on an assessment of their contribution to achieving the objectives. The ESP aggregate limit under this component is 0.75% of total issued capital in any given year. There is also a total ESP aggregate limit of 5% for all years provided for under the shareholder approved ESP scheme;
- Important strategic measurable objectives were also achieved during the year which ordinarily would have entitled Executives and staff to receive an LTIP award, also to the maximum of 0.75% of total issued capital;
- However, the Board exercised its judgement and resolved not to award any shares under the measurable objectives component on the grounds that overall remuneration was considered reasonable;
- Under the Company's shareholder approved ESP scheme:
  - The Company does not outlay any cash under the scheme
  - There are limits on when ESP shares can be disposed of by Executives and staff, namely:
    - 25% only after two years,
    - 50% after three years,
    - 75% after four years, and
    - 100% after five years
  - The ESP shares are issued at a 20% premium to the share price on the date they are granted. The participant owes the Company, by way of a loan, for the equivalent value of the shares. This loan must be repaid prior to any ESP share disposal.
  - Repayment of the loan provides additional funds to the Company
  - Therefore, in repaying the loan, the participant only benefits to the extent the long-term share price is over 20% from the date the shares were granted
  - Carnarvon's ESP is unlike performance rights in which a participant's benefit comprises the full value of the shares that vest.

Remuneration Report (Audited) (continued)

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 2015	30 June 2016	30 June 2017	30 June 2018	30 June 2019
Share price as at 30 June each year	$0.115	$0.100	$0.079	$0.15	$0.60
Year on year change in the share price	53%	(13%)	(21%)	90%	300%

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.

Remuneration Report (Audited) (continued)

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 2018, is not to exceed $600,000 per annum.

A non-executive director's base fee is $80,340 per annum, the Chairman of the board receives $123,188 per annum, the Chairman of the Audit Committee receives an additional $2,678 and the Chairman of the Remuneration Committee receives an additional $2,678. These fees were last increased with effect from 1 January 2019. 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, and fully vested to each named executive and key management personnel during the period.

The strategic objectives that were met during the 30 June 2019 financial year were as follows:

- Dorado-1 success below the Caley formation
- Dorado-2 appraisal success
- Share price increase in absolute terms and relative terms to peer group from 30 June 2018 level
- Buffalo PSC signing progressed
- Main Buffalo government drilling approvals obtained
- Preparedness to operate Buffalo materially advanced
- Business Management System, risk management and processes advanced for enhanced business operations

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.

Remuneration Report (Audited) (continued)

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 9 November 2018.

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 Australis Oil and Gas Ltd, Buru Energy Ltd, Central Petroleum Ltd, Cooper Energy Ltd, Cue Energy Resources Ltd, FAR Ltd, Horizon Oil Ltd, Karoon Gas Australia Ltd, Otto Energy Ltd, Senex Energy Ltd, 88E Ltd, Strike Energy Ltd and Tap Oil Ltd.

Remuneration Report (Audited) (continued)

In the 30 June 2019 financial year, the Company achieved the highest TSR in relation to its peers with a share price increase of 300%. As such, the relative TSR outcome was 100% on the pro rata basis outlined above. Therefore, the pool of plan shares on the relative TSR basis was 10,070,448 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 Dorado project (multiple objectives);
- Progress in the Buffalo project (multiple objectives); and
- Numerous corporate objectives which remain confidential.

While the executive team achieved many of the strategic objectives during the 30 June 2019 financial year, the Board applied a reasonableness judgment over the "measurable objectives" component and resolved not to award any additional ESP shares under this section.

Therefore, the total pool of Plan shares to be awarded was 10,070,448 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 they wish;
- 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;
- A holding lock will be placed on the Plan Shares until the loan is fully repaid.

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.

Remuneration Report (Audited) (continued)

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 34.

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 pages 29 to 30.

(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*	1,238,108*	9/11/2018*	$0.165*	$0.28*
PP Huizenga	1,807,574	28/06/2019	$0.690	$0.32
TO Naude	965,196	28/06/2019	$0.690	$0.32

* Approved by shareholders at the AGM on 9 November 2018.

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.

Remuneration Report (Audited) (continued)

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

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
9/11/2018	28/06/2023	$0.28	$0.165	$0.38	68%	1.50%	0%
28/06/2019	28/06/2024	$0.32	$0.690	$0.60	68%	1.25%	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.

Remuneration & Nomination Committee

The Committee is to include at least 3 members. Members of the committee during the 30 June 2019 financial year were Mr Foster (retired as Chairman of the Remuneration & Nomination Committee on 12 April 2019), Mr Ryan (joined and appoint as Chairman of the Remuneration & Nomination Committee on 12 April 2019), Mr Leonhardt (retired from Remuneration & Nomination Committee on 12 April 2019) 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)
SG Ryan [1]	1	1
WA Foster [2]	2	2
PJ Leonhardt [3]	1	1
P Moore	2	2

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

[1] Mr Ryan joined and was appointed as Chairman of the Remuneration & Nomination Committee on 12 April 2019.
[2] Mr Foster retired as Chairman of the Remuneration & Nomination Committee on 12 April 2019.
[3] Mr Leonhardt retired from the Remuneration & Nomination Committee on 12 April 2019.

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)

Directors' and executive officers' remuneration, Company and consolidated (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)							
2019	$120,819	-	-	-	$120,819	-	-
2018	$118,450	-	-	-	$118,450	-	-
Mr WA Foster [1]							
2019	$83,474	-	-	-	$83,474	-	-
2018	$82,400	-	-	$7,446 [3,4]	$89,846	-	8.3%
Mr SG Ryan [2]							
2019	$72,861	-	-	-	$72,861	-	-
2018	-	-	-	-	-	-	-
Dr P Moore							
2019	$78,795	-	-	-	$78,795		
2018	$77,250	-	-	$7,446 [3,4]	$84,696	-	8.8%
Executive							
Mr AC Cook (Chief Executive Officer)							
2019	$621,438	$296,705	$33,903	$346,912 [3,5]	$1,298,958	49.5%	26.7%
2018	$578,865	$73,124	$28,375	$61,226 [3,6]	$741,590	18.1%	8.3%
Executives							
Mr PP Huizenga (Chief Operating Officer)							
2019	$572,154	$271,888	$39,249	$580,834 [3]	$1,464,125	58.2%	39.7%
2018	$548,671	$69,468	$23,661	$96,747 [3]	$738,547	22.5%	13.1%
Mr TO Naude (Chief Financial Officer)							
2019	$269,945	$145,181	$36,799	$310,150 [3]	$762,075	59.7%	40.7%
2018	$241,097	$32,417	$24,103	$45,147 [3]	$342,764	22.6%	13.2%
Total compensation: key management personnel							
2019	$1,819,486	$713,774	$109,951	$1,237,896	$3,881,107	51.5%	32.7%
2018	$1,646,733	$175,009	$76,139	$218,012	$2,115,893	18.6%	10.3%

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

1 Mr Foster resigned as Chairman of the Remuneration and Nomination Committee on 12 April 2019.
2 Mr Ryan appointed as a non-executive director on 30 July 2018 and appointed as Chairman of the Remuneration and Nomination Committee on 12 April 2019.
3 Accounting cost as determined using the Black-Scholes Option Pricing Model.
4 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.
5 2019 share-based payments to Mr Cook relate to 2018 financial year remuneration approved at the AGM on 9 November 2018 and issued 16 November 2018.
6 2018 share-based payments to Mr Cook relate to 2017 financial year remuneration approved at the AGM on 17 November 2017 and issued 27 November 2017.

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:

2019	Held at 1 July 2018	Net acquired/ (sold)	Award under Employee Share Plan	Received on exercise of options	Held at 30 June 2019
Directors					
PJ Leonhardt	17,750,000	-	-	-	17,750,000
WA Foster	737,302	113,636	-	-	850,938
AC Cook	12,499,917	-	1,238,108	-	13,738,025
P Moore	270,232	150,000	-	-	420,232
SG Ryan	-	229,240	-	-	229,240
Executives					
PP Huizenga	10,668,622	(500,000)	1,807,574	-	11,976,196
TO Naude	3,241,389	(187,228)	965,196	-	4,019,357

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:

2019	Held at 1 July 2018	Granted as compensation	Employee Share Plan cancellations	Exercised	Held at 30 June 2019
Directors					
PJ Leonhardt	3,000,000	-	-	-	3,000,000
WA Foster	-	-	-	-	-
AC Cook	9,734,917	1,238,108	-	-	10,973,025
P Moore	-	-	-	-	-
SG Ryan	-	-	-	-	-
Executives					
PP Huizenga	10,168,622	1,807,574	-	-	11,976,196
TO Naude	3,027,316	965,196	-	-	3,992,512

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:

2019	Held at 1 July 2018	Granted as compensation	Acquired/ (sold)	Exercised	Held at 30 June 2019
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 2019 ($)
Auditors of the Company:	
Ernst & Young	71,502

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	13,738,025	-
WA Foster	850,938	500,000
P Moore	420,232	500,000
SG Ryan	229,240	-

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 2019, women made up 31% 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 2019 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 2019 financial year are contained in the operating and financial review as set out on pages 8 to 21.

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 2019.

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 (2018: Nil).

Auditor's independence declaration

The auditor's Independence Declaration under Section 307C of the Corporations Act is set out on page 39 and forms part of the directors' report for the financial year ended 30 June 2019.

Principal activities

During the course of the 2019 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 8 to 21.

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 2019 is set out on pages 8 to 21 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

On 25 July 2019, the Company announced a successful Placement of 202,623,637 shares which raised $79 million (before costs). In addition to the Placement, the Company completed a Share Purchase Plan on 16 August 2019 which issued 8,959,465 shares and raised $3.5 million (before costs).

Other than that there is no other matters or circumstance has arisen since 30 June 2019 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, 27 August 2019

Building a better working world

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

As lead auditor for the audit of the financial report of Carnarvon Petroleum Limited for the financial year ended 30 June 2019, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

R J Curtin
Partner
27 August 2019

RC:KW:CARNARVON:031

CORPORATE GOVERNANCE STATEMENT

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

The Group's Corporate Governance Statement for the financial year ending 30 June 2019 is dated as at 30 June 2019 and was approved by the Board on 27 August 2019. 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 2019

	Notes	Consolidated 2019 $000	Consolidated 2018 $000
Other income	2	1,401	5,667
Administrative expenses		(2,214)	(1,409)
Directors' fees		(356)	(278)
Employee benefits expense	18(a)	(5,755)	(2,088)
Foreign exchange gain		2,237	1,737
New venture and advisory costs		(1,666)	(2,204)
Movement in fair value of financial assets		(1,668)	-
(Loss)/Profit before income tax		(8,021)	1,425
Taxes			
Current income tax expense	6(a)	-	-
(Loss)/Profit for the year		(8,021)	1,425
(Loss)/Profit attributable to members of the Company		(8,021)	1,425
(Loss)/Profit per share:			
Basic (loss)/profit for the period attributable to members of the entity (cents per share)	5	(0.64)	0.14
Diluted (loss)/ profit for the period attributable to members of the entity (cents per share)	5	(0.64)	0.14

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 2019

	Notes	Consolidated 2019 $000	Consolidated 2018 $000
(Loss)/Profit for the year		(8,021)	1,425
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)
Total comprehensive (loss)/profit for the year		(8,021)	208
Total comprehensive (loss)/profit attributable to members of the company		(8,021)	208

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 2019

	Notes	Consolidated 2019 $000	Consolidated 2018 $000
Current assets			
Cash and cash equivalents	15(b)	73,900	63,606
Trade and other receivables	7	308	324
Other assets	10	459	555
Total current assets		74,667	64,485
Non-current assets			
Property, plant and equipment	9	44	35
Other financial assets	8	629	2,297
Exploration and evaluation expenditure	11	88,869	53,443
Total non-current assets		89,542	55,775
Total assets		164,209	120,260
Current liabilities			
Trade and other payables	13	1,776	902
Employee benefits	18(b)	378	386
Total current liabilities		2,154	1,288
Non-current liabilities			
Employee benefits	18(b)	283	196
Total non-current liabilities		283	196
Total liabilities		2,437	1,484
Net assets		161,772	118,776
Equity			
Contributed equity	14	166,081	115,508
Reserves	14	66	(1,595)
(Accumulated deficit)/Retained earnings		(4,375)	4,863
Total equity		161,772	118,776

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 2019

	Issued capital $000	Reserve shares $000	(Accumulated deficit) / Retained earnings $000	Translation reserve $000	Fair value reserve $000	Share based payments reserve $000	Total $000
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
Balance at 1 July 2018							
Comprehensive loss	115,508	(4,276)	4,863	26	(1,217)	3,872	118,776
AASB 9 adjustment to opening balances	-	-	(1,217)	-	1,217	-	-
Restated balance 1 July 2018	115,508	(4,276)	3,646	26	-	3,872	118,776
Loss for the year	-	-	(8,021)	-	-	-	(8,021)
Other comprehensive loss	-	-	-	-	-	-	-
Total comprehensive loss for the year	-	-	(8,021)	-	-	-	(8,021)
Transactions with owners and other transfers							
Share based payments	-	-	-	-	-	2,948	2,948
Proceeds from capital raise	47,468	-	-	-	-	-	47,468
Exercise of ESP shares	262	339	-	-	-	-	601
Issue of ESP shares	2,843	(2,843)	-	-	-	-	-
Total transactions with owners and other transfers	50,573	(2,504)	-	-	-	2,948	51,017
Balance at 30 June 2019	166,081	(6,780)	(4,375)	26	-	6,820	161,772

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 2019

	Notes	Consolidated 2019 $000	Consolidated 2018 $000
Cash flows from operating activities			
Payments to suppliers and employees		(5,944)	(5,855)
Interest received		1,401	630
Research and development tax credit received		-	1,523
Net cash used in operating activities	15(a)	(4,543)	(3,702)
Cash flows from investing activities			
Exploration and development expenditure		(38,129)	(6,505)
Insurance Refund Received		2,703	-
Acquisition of property, plant and equipment	9	(44)	(6)
Net cash used in investing activities		(35,470)	(6,511)
Cash flows from financing activities			
Proceeds from capital raise		47,468	19,021
Proceeds from exercise of Employee Share Plan		601	-
Net cash provided by financing activities		48,069	19,021
Net increase in cash and cash equivalents held		8,056	8,808
Cash and cash equivalents at the beginning of the financial year		63,606	53,050
Effect of exchange rate fluctuations on cash and cash equivalents		2,238	1,748
Cash and cash equivalents at the end of the financial year	15(b)	73,900	63,606

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 2019 comprises the Company and its controlled entities (the "Group") and the Group's interest in joint operations.

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 27 August 2019.

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	
	2019 $000	2018 $000
Interest revenue	1,401	630
Research and development tax credit received	-	1,523
Gain on settlement of deferred consideration asset (Note 8)	-	3,514
	1,401	5,667

3. Other expenses

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

	2019 $000	2018 $000
Depreciation – property, plant and equipment	(34)	(52)
Rental premises – operating leases	(287)	(242)
Defined contribution – superannuation expense	(368)	(288)

4. Auditors' remuneration

	2019 $000	2018 $000
Audit and review services:		
Ernst & Young	(67)	(67)
Tax services:		
Ernst & Young	-	(33)

5. (Loss)/Profit per share

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

	2019	2018
	Number of shares	
Issued ordinary shares at 1 July	1,189,888,259	1,027,969,809
Effect of shares issued	63,787,832	24,552,749
Weighted average number of ordinary shares 30 June (basic)	1,253,676,091	1,052,522,558
Effect of share options on issue(1)	-	1,000,000
Weighted average number of ordinary shares 30 June (diluted)	1,254,676,091	1,053,522,558

	2019 $	2018 $
(Loss)/Profit used in calculating basic and diluted loss per share	(8,021,000)	1,425,000

(1) As the consolidated entity incurred a loss for the year ended 30 June 2019, 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 2019 $000	Consolidated 2018 $000
(a) Income tax expense		
Current Income tax expense		
Current Income tax expense	-	-
Adjustment for prior period	-	-
	-	-
Deferred tax (income)		
Origination and Reversal of temporary differences-Current	-	-
Adjustment for prior period	-	-
	-	-
Total income tax expense	-	-
Numerical reconciliation between pre-tax profit and income tax expense:		
(Loss)/profit for the period	(8,022)	1,425
Total income tax expense	-	-
(Loss)/profit excluding income tax	(8,022)	1,425
Income tax using the statutory rate of 27.5%	(2,206)	392
Non-deductible expenditure	-	190
R&D grant not assessable	-	(419)
Settlement of deferred consideration	-	(966)
Share based payment expense	811	-
Entertainment	4	-
Current year tax benefit not brought to account	1,391	803
	-	-
Under(over) provision in prior years	-	-
Income tax expense	-	-
(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.

6. Taxes (continued)

(c) Deferred tax assets and liabilities

	Consolidated 2019 $000	Consolidated 2018 $000
Deferred tax liabilities		
Capitalised exploration deducted immediately	22,953	13,211
Unrealised foreign exchange gains	681	481
Gross deferred tax liabilities	23,634	13,692

Deferred tax assets	2019 $000	2018 $000
Carry forward revenue tax losses	36,747	26,337
Carry forward capital tax losses	2,319	2,319
Property, plant and equipment	149	161
Share issue costs	680	215
Provisions	182	160
Accruals	24	34
Gross deferred tax assets	40,100	29,226
Set-off of deferred tax liabilities pursuant to set-off provisions	(23,634)	(13,692)
Unrecognised deferred tax asset	(16,466)	(15,534)
Net deferred tax assets	-	-

(d) Unrecognised tax losses and PRRT credits

	2019 $000	2018 $000
Australian tax losses	116,058	78,203

The Group has not recognised a deferred tax asset for its Australian tax losses.

	2019 $000	2018 $000
Unaugmented PRRT losses	103,144	67,719

The Group has not recognised a deferred tax asset for its PRRT losses.

7. Trade and other receivables

	Consolidated 2019 $000	Consolidated 2018 $000
Current		
Other receivables	90	96
Cash held as security	218	228
	308	324

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

8. Other financial assets

	2019 $000	2018 $000
Financial assets at FVTPL	629	2,297

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

	2019 $000	2018 $000
Carrying value at the beginning of period	2,297	-
Receipt of shares in CWX Global Limited on settlement of deferred consideration asset	-	3,514
Fair value movements	(1,668)	(1,217)
Carrying value at the end of period	629	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; 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 2019 has been accounted for as a fair value through profit or loss financial asset under Australian Accounting Standards and classified as a "level 1" financial asset under the fair value hierarchy.

9. Property, plant and equipment

	Consolidated	
	2019	2018
	$000	$000
Fixtures and fittings		
Cost:		
Balance at beginning of financial year	564	558
Additions	44	6
Disposals	(45)	-
Effects of movements in foreign exchange	-	-
Balance at end of financial year	563	564
Depreciation and impairment losses:		
Balance at beginning of financial year	529	478
Additions	-	-
Disposals	(45)	-
Depreciation charge for year	35	51
Balance at end of financial year	519	529
Carrying amount opening	35	80
Carrying amount closing	44	35

10. Other assets

	Consolidated	
	2019	2018
	$000	$000
Current		
Deposits and prepayments	459	555

11. Exploration and evaluation expenditure

Cost:		
Balance at beginning of financial year	53,443	46,938
Additions	38,129	6,505
Well control insurance refund	(2,703)	-
Balance at end of financial year	88,869	53,443

12. Joint operations

The Group has the following interests in joint operations:

Joint operation	Principal activities	Ownership interest %	
Western Australia		2019	2018
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.

13. Trade and other payables

	Consolidated	
	2019 $000	2018 $000
Current		
Trade payables	1,697	533
Non-trade payables and accrued expenses	79	369
	1,776	902

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

14. Capital and reserves

	Company 2019	Company 2018
	Number of shares	
Contributed equity		
Balance at beginning of financial year	1,189,888,259	1,027,969,809
Issued for cash	151,600,000	153,769,034
Employee Share Plan issues	9,335,989	8,149,416
Balance at end of financial year	1,350,824,248	1,189,888,259

	Company 2019 $000	Company 2018 $000
Issued capital		
Balance at beginning of financial year	115,508	95,865
Reserve employee shares	2,504	622
Exercise of employee shares	601	-
Proceeds from capital raise	47,468	19,021
Balance at end of financial year	166,081	115,508

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 2019	Company 2018
	Number of shares	
Reserve shares (plan shares)		
Balance at beginning of financial year	53,602,608	45,455,192
Employee Share Plan issues	9,335,989	8,149,416
Employee Share Plan repaid	(6,793,111)	-
Balance at end of financial year	56,145,486	53,602,608

	Company 2019 $000	Company 2018 $000
Reserve shares (plan shares)		
Balance at beginning of financial year	4,276	3,654
Employee Share Plan issues	2,504	622
Balance at end of financial year	6,780	4,276

Translation reserve

Movements in the translation reserve are set out in the Statement of Changes in Equity on page 43.

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

15. Reconciliation of cash flows from operating activities

	Consolidated 2019 $000	Consolidated 2018 $000
(a) Cash flows from operating activities		
(Loss)/Profit for the year	(8,021)	1,425
Adjustments for:		
Equity settled share based payment expense	2,949	618
Settlement of deferred consideration asset	-	(3,514)
Depreciation	34	51
Movement of financial asset	(2,885)	-
Foreign exchange profit/(loss)	2,315	(1,748)
Operating loss before changes in working capital and provisions:	(5,608)	(3,168)
Changes in assets and liabilities:		
Decrease in trade and other receivables	16	76
Decrease/(Increase) in other assets	96	(96)
Increase/(Decrease) in trade and other payables	874	(439)
Increase/(Decrease) in provisions and employee benefits	79	(75)
Net cash flows used in operating activities	(4,543)	(3,702)

(b) Reconciliation of cash and cash equivalents

	2019 $000	2018 $000
Cash at bank and at call	25,329	3,726
Cash on deposit	48,571	59,880
	73,900	63,606

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

Restricted cash of $218,000 consolidated is included under trade and other receivables (2018:$228,000 consolidated), see Note 7.

16. Capital and other commitments

(a) Exploration expenditure commitments

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

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

	Consolidated	
	2019 $000	2018 $000
Less than one year	793	1,153
Between one and five years	493	1,474
	1,286	2,627
(b) Capital expenditure commitments		
Data licence commitments	483	437

17. Contingencies

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

18. Employee benefits

(a) Employee benefits	Consolidated 2019 $000	Consolidated 2018 $000
Short term:		
Salary and wages (including super)	4,359	3,826
Allocated staff costs to projects	(3,068)	(2,817)
Short term cash bonus	1,515	460
Long term:		
Share based payment expense	2,949	619
Total Employee benefits	5,755	2,088

	Consolidated 2019 $000	Consolidated 2018 $000
(b) Employee benefits		
Current:		
Liability for annual leave and long service leave	378	386
Non-Current:		
Provision for long service leave	283	196
Total Employee benefits	661	582

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 2019	WAEP 2019	Number 2018	WAEP 2018
Outstanding at 1 July	53,602,608	0.15	45,453,192	0.15
Granted during the year	9,335,989	0.62	8,149,416	0.15
Forfeited during the year	-	-	-	-
Exercised during the year	6,793,111	0.09	-	-
Expired during the year	-	-	-	-
Outstanding at 30 June	56,145,486	0.24	53,602,608	0.15
Exercisable at 30 June	56,145,486	0.24	53,602,608	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:

18. Employee benefits (continued)

Fair value of ESP shares and related assumptions	Key management personnel 2019	Key management personnel 2018	Other employees 2019	Other employees 2018
Fair value at measurement date (cents)	30.9	6.3	32.1	8.1
Share price at date of issue (cents)	54	11	60	15
Exercise price (cents)	54	13	69	17
Expected volatility	68%	68%	68%	68%
Expected life of ESP share	5 years	5 years	5 years	5 years
Expected dividends	Nil	Nil	Nil	Nil
Risk-free interest rate	1.33%	1.50%	1.25%	1.5%
Share-based expense recognised	1,237,895	$203,120	1,711,136	$400,975

Further details of shares granted under the ESP to directors are set out in Note 22, and in the Remuneration Report set out on pages 26 to 34.

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:

2019	Held at 1 July 2018	Granted as compensation	Acquired/ (sold)	Exercised	Held at 30 June 2019
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 2019	WAEP 2019	Number 2018	WAEP 2018
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 2019 was 1 years (2018: 1 year).

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

18. Employee benefits (continued)

Fair value of share option and related assumptions	2019	2018
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

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

19. Related party disclosures

Ultimate parent

Carnarvon Petroleum Limited is the ultimate parent company.

Wholly-owned group transactions

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

Other related party balances and transactions

At 30 June 2019 an amount of $67,855 (2018: $78,006) is included in Carnarvon and consolidated trade and other payables for outstanding director fees and expenses.

20. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Consolidated	
	2019 $000	2018 $000
Less than one year	196	203
Between one and five years	845	-
	1,041	203

During the reporting period $289,000 was recognised as an expense in the consolidated income statement in respect of operating leases (2018: $196,000).

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

21. Segment information

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

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

Basis of accounting for purposes of reporting by operating segments

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

22. Key management personnel disclosures

(a) Key management personnel compensation

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

	Consolidated	
	2019 $000	2018 $000
Short term employee benefits	2,533	1,822
Post-employment benefits	110	76
Share-based payments	1,238	218
	3,881	2,116

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 26 to 34.

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	
	2019 $000	2018 $000
Current		
Trade and other payables	68	78

22. Key management personnel disclosures (continued)

(c) Ordinary shares held by key management personnel

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

2019	Held at 1 July 2018	Net acquired/ (sold)	Award under Employee Share Plan	Received on exercise of options	Held at 30 June 2019
Directors					
PJ Leonhardt	17,750,000	-	-	-	17,750,000
WA Foster	737,302	113,636	-	-	850,938
AC Cook	12,499,917	-	1,238,108	-	13,738,025
P Moore	270,232	150,000	-	-	420,232
SG Ryan	-	229,240	-	-	229,240
Executives					
PP Huizenga	10,668,622	(500,000)	1,807,574	-	11,976,196
TO Naude	3,241,389	(187,228)	965,196	-	4,019,357

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

22. Key management personnel disclosures (continued)

(d) Plan shares held by key management personnel

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

2019	Held at 1 July 2018	Granted as compensation	Employee Share Plan cancellations	Exercised	Held at 30 June 2019
Directors					
PJ Leonhardt	3,000,000	-	-	-	3,000,000
WA Foster	-	-	-	-	-
AC Cook	9,734,917	1,238,108	-	-	10,973,025
P Moore	-	-	-	-	-
SG Ryan	-	-	-	-	-
Executives					
PP Huizenga	10,168,622	1,807,574	-	-	11,976,196
TO Naude	3,027,316	965,196	-	-	3,992,512

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

(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:

2019	Held at 1 July 2018	Granted as compensation	Acquired/ (sold)	Exercised	Held at 30 June 2019
Directors					
WA Foster	500,000	-	-	-	500,000
P Moore	500,000	-	-	-	500,000

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

23. Consolidated entities

Name	Country of Incorporation	Ownership interest 2019	2018
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%	100%

24. Subsequent events

On 25 July 2019, the Company announced a successful Placement of 202,623,637 shares which raised $79 million (before costs). In addition to the Placement, the Company completed a Share Purchase Plan on 16 August 2019 which issued 8,959,465 shares and raised $3.5 million (before costs).

Other than that there is no other matters or circumstance has arisen since 30 June 2019 that in the opinion of the directors has significantly affected, or may significantly affect in future financial years:

(iv) The Group's operations; or
(v) The results of those operations; or
(vi) The Group's state of affairs

25. Financial risk management

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

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

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

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

25. Financial risk management (continued)

(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	
	2019	2018
Carrying amount (A$000)		
Financial assets – cash and cash equivalents	73,900	63,606
Weighted average interest rate (%)		
Financial assets – cash and cash equivalents	1.63%	1.78%

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

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 2018:

	Consolidated	
	Equity $000	Profit and loss $000
30 June 2019	183	183
30 June 2018	159	159

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 2018:

	Consolidated	
	Equity $000	Profit and loss $000
30 June 2019	(183)	(183)
30 June 2018	(159)	(159)

25. Financial risk management (continued)

(b) Credit risk

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

The Group's trade receivables are deposits and amounts due from the Australian Taxation office. There were no receivables at 30 June 2019 or 30 June 2018 that were past due.

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

Credit risk further arises in relation to financial guarantees given to certain parties, refer to Note 25.

Exposure to credit risk is 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	
	2019 $000	2018 $000
Carrying amount:		
Cash and cash equivalents	73,900	63,606
Trade and other receivables	308	324
	74,208	63,930

All cash held by the Group is deposited with investment grade banks and any expected credit loss is immaterial.

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

	Gross 2019 $000	Impairment 2019 $000	Gross 2018 $000	Impairment 2018 $000
Not past due	308	-	324	-
	308	-	324	-

The Group trades only with recognised creditworthy third parties and the exposure to credit risk as at balance date is not significant. The Group believes that no impairment allowance is necessary in respect of other receivables.

25. Financial risk management (continued)

(c) Currency risk

Currency risk arises from assets and liabilities that are denominated in a currency other than the functional currencies of the entities within the Group, being the A$ 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
30 June 2019	
Cash and cash equivalents	32,543
Trade payables and accruals	4
Gross balance sheet exposure	32,547
30 June 2018	
Cash and cash equivalents	46,930
Trade payables and accruals	-
Gross balance sheet exposure	46,930

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
AUD to:	2019	2018	2019	2018
1 USD	1.424	1.290	1.423	1.349

Sensitivity analysis

A 5% strengthening of the AUD against the USD for the 12 months to 30 June 2019 and 30 June 2018 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 2019		
USD	(1,549)	(1,549)
30 June 2018		
USD	(2,235)	(2,235)

A 5% weakening of the AUD against the USD for the 12 months to 30 June 2019 and 30 June 2018 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 2019		
USD	1,712	1,712
30 June 2018		
USD	2,470	2,470

25. Financial risk management (continued)

(d) 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
30 June 2019				
Non-derivative financial liabilities				
Trade and other payables	1,697	1,697	1,697	-
30 June 2018				
Non-derivative financial liabilities				
Trade and other payables	533	533	533	-

26. Fair value measurement

Fair value hierarchy

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

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

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

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

30 June 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Other financial assets	629	-	-	629
Total assets	629	-	-	629

30 June 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Other financial assets	2,297	-	-	2,297
Total assets	2,297	-	-	2,297

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.

27. Parent Information

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

	2019 $000	2018 $000
Statement of financial position		
Current Assets	74,667	64,485
Non-current assets	88,913	55,775
Total assets	163,580	120,260
Current liabilities	2,154	1,288
Non-current liabilities	283	196
Total liabilities	2,437	1,484
Equity		
Issued Capital	166,080	115,508
Accumulated Profits	(4,349)	3,672
Reserves	41	(404)
Total equity	161,772	118,776
Statement of comprehensive income		
Total (Loss)/profit	(6,354)	1,425
Total comprehensive (Loss)/Profit	(6,354)	1,425

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 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.

27. Parent Information (continued)

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

	Parent	
	2019 $000	2018 $000
Less than one year	793	1,153
Between one and five years	493	1,474
	1,286	2,627

(b) Capital expenditure commitments

Data licence commitments	482	437

Non-cancellable operating lease rentals are payable as follows:

Less than one year	196	203
Between one and five years	845	-
	1,041	203

28. Contingent assets and liabilities

The Company has a contingent asset which relates to the future receipt of an insurance refund. As at 30 June 2019, the Company had received $2.7m of the refund which is no longer recognised as a contingent asset. The final settlement amount is still being determined with the insurance Underwriters.

The successful insurance claim related to the completion of well control activities for the Phoenix South-2 well in January 2017 due to the well encountering higher than expected pressures. The Phoenix South-3 well was designed as a re-drill with a significant portion of the costs of the Phoenix South-3 well to be reimbursed by the insurance claim.

There were no contingent liabilities as at 30 June 2019.

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.

(b) Adoption of new and amended Accounting Standards

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

The consolidated entity has adopted all the new, revised or amending Accounting Standards and Interpretations issued by the AASB that are mandatory for the current reporting period. Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The nature and the effect of the adoption of new Accounting Standards and Interpretations that are most relevant to the consolidated entity are described below:

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

(b) Adoption of new and amended Accounting Standards (continued)

(i) AASB 15 Revenue from Contracts with Customers

AASB 15 *Revenue from Contracts with Customers* (AASB 15) supersedes AASB 111 *Construction Contracts*, AASB 18 *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. AASB 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

AASB 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted AASB 15 using the full retrospective method of adoption. The adoption of AASB 15 had no impact on the Group and as such no transition adjustments to the comparative year.

(ii) AASB 9 Financial Instruments

AASB 9 *Financial Instruments* (AASB 9) replaces AASB 139 *Financial Instruments: Recognition and Measurement* (AASB 139), bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The Group has applied AASB 9, with the initial application date of 1 July 2018. The consolidated statement of financial position as at 30 June 2018 and the consolidated income statement and consolidated statement of comprehensive income for the year then ended were not restated.

Classification and measurement

AASB 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. AASB 9 largely retains the existing requirements of AASB 139 for the classification and measurement of financial liabilities, however, it eliminates the previous AASB 139 categories for financial assets held to maturity, receivables and available for sale. Under AASB 9, on initial recognition a financial asset is classified as measured at:

- Amortised cost;
- Fair Value through Other Comprehensive Income (FVOCI) – debt investment;
- FVOCI – equity investment; or
- Fair Value through Profit or Loss (FVTPL)

The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

At the date of initial application, existing financial assets and liabilities of the Group were assessed in terms of the requirements of AASB 9. The assessment was conducted on instruments that had not been derecognised as at 1 July 2018. In this regard, the Group has determined that the adoption of AASB 9 has impacted the classification of financial instruments at 1 July 2018 as follows:

Class of financial instrument presented in the statement of financial position	Original measurement category under AASB 139	New measurement category under AASB 9
Cash and cash equivalents	Loans and receivables	Financial assets at amortised cost
Trade and other receivables	Loans and receivables	Financial assets at amortised cost
Other financial assets	Available-for-sale	Fair value through profit and loss
Trade and other payables	Financial Liabilities at amortised cost	Financial liabilities at amortised cost

As a result of the change in classification of the Group's other financial assets, the fair value reserve of $1.2m related to the listed equity investments that were previously presented under accumulated OCI, was reclassified to Retained earnings as at 1 July 2018.

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

Impairment of financial assets

In relation to the financial assets carried at amortised cost, AASB 9 requires an expected credit loss model to be applied as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. In particular, AASB 9 requires the Group to measure the loss allowance at an amount equal to lifetime expected credit loss ("ECL") if the credit risk on the instrument has increased significantly since initial recognition. On the other hand, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group is required to measure the loss allowance for that financial instrument at an amount equal to the ECL within the next 12 months.

As at 1 July 2018, the Group reviewed and assessed the existing financial assets for impairment using reasonable and supportable information, and determined that the impact is not material.

Hedge accounting

The Group has not applied applied hedge accounting.

(c) Basis of measurement

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

(d) 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.

Key judgement – functional currency

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

Key judgements – other

Other areas of judgement are in the determination of oil reserves, rehabilitation provisions, 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 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

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

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

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

Joint Operations

The Group's shares of the assets, liabilities, revenue and expenses of joint operations have been included in the appropriate line items of the consolidated financial statements. Details of the Group's interests are provided in Note 12.

30. Significant accounting policies (continued)

(b) Income tax

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.

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

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

Depreciation

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

Property, plant and equipment: 10% to 33%

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

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

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

30. Significant accounting policies (continued)

(d) 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(b).

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.

(e) 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.

(f) 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)

(g) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group 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. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under AASB 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

30. Significant accounting policies (continued)

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes other receivables.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

Expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss will be recognised through an allowance. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

30. Significant accounting policies (continued)

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

For any debt instruments at fair value through OCI, the Group will apply the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

The Group's financial liabilities include trade and other payables.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

(iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(h) 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.

(i) 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.

30. Significant accounting policies (continued)

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.

(j) 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.

(k) Leases

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

Operating leases

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

(l) Share capital

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

(m) Inventories

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

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

(n) Employee benefits

Wages and salaries, annual leave

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

30. Significant accounting policies (continued)

Share based payments

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

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

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

(o) Earnings per share

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

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

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

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks

(q) Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

(r) Goods and services tax

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

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

(s) Finance income and expenses

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

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

(t) Royalties

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

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

30. Significant accounting policies (continued)

(u) 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 2019. 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 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

Reference	Title	Summary	Impact on the Company	Application date of standard	Application date for Group
IFRIC 23	*Uncertainty over Income Tax Treatments*	The Interpretation clarifies the application of the recognition and measurement criteria in IAS 12 Income Taxes when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following: • Whether an entity considers uncertain tax treatments separately • The assumptions an entity makes about the examination of tax treatments by taxation authorities • How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates • How an entity considers changes in facts and circumstances.	There will be no material impact on the Company.	1 January 2019	1 July 2019
AASB 2017-6	*Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation*	This Standard amends AASB 9 Financial Instruments to permit entities to measure at amortised cost or fair value through other comprehensive income particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature. This is subject to meeting other conditions, such as the nature of the business model relevant to the financial asset. Otherwise, the financial assets would be measured at fair value through profit or loss. The Standard also clarifies in the Basis for Conclusion that, under AASB 9, gains and losses arising on modifications of financial liabilities that do not result in derecognition should be recognised in profit or loss.	There will be no material impact on the Company.	1 January 2019	1 January 2019

Reference	Title	Summary	Impact on the Company	Application date of standard	Application date for Group
Conceptual Framework AASB 2019-1	*Conceptual Framework for Financial Reporting* *Amendments to Australian Accounting Standards – Reference to the Conceptual Framework*	The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows: • Chapter 1 – The objective of financial reporting • Chapter 2 – Qualitative characteristics of useful financial information • Chapter 3 – Financial statements and the reporting entity • Chapter 4 – The elements of financial statements • Chapter 5 – Recognition and derecognition • Chapter 6 – Measurement • Chapter 7 – Presentation and disclosure • Chapter 8 – Concepts of capital and capital maintenance AASB 2019-1 has also been issued, which sets out the amendments to Australian Accounting Standards, Interpretations and other pronouncements in order to update references to the revised Conceptual Framework. The changes to the Conceptual Framework may affect the application of accounting standards in situations where no standard applies to a particular transaction or event. In addition, relief has been provided in applying AASB 3 and developing accounting policies for regulatory account balances using AASB 108, such that entities must continue to apply the definitions of an asset and a liability (and supporting concepts) in the *Framework for the Preparation and Presentation of Financial Statements* (July 2004), and not the definitions in the revised Conceptual Framework. 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 2021.	The Company is still assessing whether there will be any material impact.	1 January 2020	1 January 2020

Reference	Title	Summary	Impact on the Company	Application date of standard	Application date for Group
AASB 2018-7	*Amendments to Australian Accounting Standards – Definition of Material*	This Standard amends AASB 101 Presentation of Financial Statements and AAS 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.	The Company is still assessing whether there will be any material impact.	1 January 2020	1 January 2020

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 40 to 82 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 2019 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

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

(2) This declaration has been made after receiving the declarations required to be made to the directors 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 2019.

Signed in accordance with a resolution of the directors.

PJ Leonhardt
Director

Perth, 27 August 2019

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

Report on the audit of the financial report

Opinion

We have audited the financial report of Carnarvon Petroleum Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2019, 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 2019 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.

1. Carrying value of capitalised exploration and evaluation

Why significant	How our audit addressed the key audit matter
As disclosed in Note 11, the Group held capitalised exploration and evaluation expenditure of $88,869,000 as at 30 June 2019. 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 license 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 management's decision that activities have not yet progressed to a point that a determination of the existence of economically recoverable reserves can be made, through discussion with management, review of ASX announcements and review of minutes of directors' meetings. ▸ assessed the directors' review of the carrying value of E&E, ensuring that there was consideration of effect of potential indicators of impairment. ▸ assessed the adequacy of the financial report disclosures contained in Note 11 of the financial report.

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 2019 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 2019.

In our opinion, the Remuneration Report of Carnarvon Petroleum Limited for the year ended 30 June 2019, 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

R J Curtin
Partner
Perth
27 August 2019

RC:KW:CARNARVON:030

ADDITIONAL SHAREHOLDER INFORMATION

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

(a) Shareholdings as at 26 August 2019

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	150,304,719	9.62
Citicorp Nominees Pty Limited	87,230,233	5.58
HSBC Custody Nominees (Australia) Limited	70,384,762	4.50
Nero Resource Fund Pty Ltd	25,154,835	1.61
UBS Nominees Pty Ltd	24,872,963	1.59
Marford Group Pty Ltd	20,239,873	1.30
BNP Paribas Nominees Pty Ltd	13,413,628	0.86
CS Fourth Nominees Pty Limited	12,799,443	0.82
BNP Paribas Noms Pty Ltd	12,449,338	0.80
Brispot Nominees Pty Ltd	12,438,411	0.80
Mr Philip Paul Huizenga	11,876,196	0.76
Jacobson Geophysical Services Pty Ltd	11,334,068	0.73
Zero Nominees Pty Ltd	10,438,461	0.67
Prettejohn Projects Pty Ltd	10,111,961	0.65
Mr Adrian Caldwell Cook Ms Belinda Michelle Honey	9,548,025	0.61
Brentworth Pty Ltd	9,000,000	0.58
Arne Investments Pty Ltd	8,353,950	0.53
Mr Peter James Leonhardt	7,700,000	0.49
Brixia Investments Ltd	7,614,000	0.49
Kemast Investments Pty Ltd	7,000,000	0.45
	522,264,866	**33.43**

Distribution of equity security holders

Size of Holding			Number of shareholders	Number of fully paid shares
1	to	1,000	626	283,388
1,001	to	5,000	2,600	7,772,778
5,001	to	10,000	1,986	16,552,270
10,001	to	100,000	5,485	215,537,861
100,001	and over		1,772	1,322,261,053
			12,469	**1,562,407,350**

(b) Option holdings as at 26 August 2019

	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 Santos Limited	20% 80%	Santos Limited
WA-436-P, WA-438-P	Roebuck / Australia	Carnarvon Santos Limited	30% 70%	Santos Limited
WA-155-P	Barrow / Australia	Carnarvon Santos Limited	28.5% 71.5%	Santos Limited
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
R7	Perth / Australia	Carnarvon	2.5% of 42.5%	Latent Petroleum

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