2021
ANNUAL REPORT

CARNARVON
PETROLEUM LTD

Carnarvon Petroleum Limited
ABN 60 002 688 851

CORPORATE DIRECTORY

DIRECTORS

WA Foster (Chairman) (Appointed Chairman on 11 November 2020)
PJ Leonhardt (Chairman) (Retired on 11 November 2020)
AC Cook (Managing Director)
P Moore (Non-Executive Director)
SG Ryan (Non-Executive Director)
D Bakker (Non-Executive Director) (Appointed on 5 October 2020)

COMPANY SECRETARY

T Naude
A Doering

AUDITORS

Ernst & Young

BANKERS

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

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

SHARE REGISTRY

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STOCK EXCHANGE LISTING

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

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CHAIRMAN'S REVIEW

The challenges of COVID-19 and the economic effects of this have continued throughout the past year. Both human and operational activity has required careful management to ensure the safety and well-being of staff and the achievement of operations despite logistic and supply chain disruptions. On behalf of the Board, I wish to express our appreciation to our staff in working through this in a safe and efficient manner and to thank Adrian Cook for the leadership he has shown as Managing Director.

Various agencies such as the International Energy Agency have identified that a rapid increase in renewable energy sources is necessary if the world is to achieve a net zero emissions position by 2050. These agencies also recognise that oil and gas will be required through this period to meet energy needs. Carnarvon's position remains strong due to its focus on low cost assets and the expected strengthening in the oil price due to significant under-investment in recent years in new supply sources. I am firmly of the view Carnarvon has an ongoing future for many years that shareholders will be able to realise value through in the projects now being developed.

The Annual General Meeting of Carnarvon held last November saw the appointment of Ms Debra Bakker to the board, the retirement of Mr Peter Leonhardt as Chairman and my appointment to that position. The skillset of the board has been considerably enhanced with Debra's appointment through her financing background, this now being a key aspect of Carnarvon's project achievement. I wish to thank Peter for the excellent stewardship he provided to Carnarvon over his 15-year term as Chairman and I look forward to continuing this.

Carnarvon's strategy was refined this year to a focus on realising shareholder value from the major discoveries in the high-grade exploration areas it now holds. Four main areas of focus were progressed around the Buffalo Field Redevelopment; the Dorado Field Development; the selection of drilling prospects adjacent to the Dorado field and a deep assessment of the potential within Carnarvon's existing exploration portfolio.

The coming year is both exciting and transformational for Carnarvon. The level of activity will be at an all-time high. With three wells to be drilled and with Dorado Field Development progressing shareholders have much to look forward to.

The Buffalo Field Redevelopment target is to drill the Buffalo-10 well into the remapped structural crest of this former field before the end of 2021, where between 15 and 48 million barrels of oil are prognosed as being recoverable. This target is on track to be achieved with spud of the well planned for late October 2021. Carnarvon's 50% partner in the Timor-Leste Production Sharing Contract ("PSC"), Advance Energy PLC ("Advance"), is funding US$20 million of the costs of this well. With drilling success, the newly formed joint venture will acquire development funding from third party lenders and any additional funding requirements (above that provided by third party lenders) will be provided by Advance as an interest free loan. Carnarvon also remains as operator for the PSC. We wish to acknowledge the cooperation of the Timor-Leste authorities in maintaining the schedule in what has been very difficult times for them due to COVID-19.

In relation to the Dorado Field Development, Front End Engineering and Design ("FEED") for this project was announced by Santos, the operating partner of the licence area, at the end of this financial year. The original milestone was delayed by some six months to better plan for potential development from nearby prospects that could utilise the Dorado field's infrastructure. The high productivity of the Dorado reservoirs means that oil recovery is very rapid and capacity to process other fields' production will quickly become available. This incremental production has an extremely high net revenue margin as minimal new infrastructure is required. The Final Investment Decision ("FID") for the Dorado Field Development is now expected around the middle of calendar 2022, with production commencement targeted for late 2025.

During the year, a commitment was made to the drilling of two large prospects adjacent to the Dorado field with commencement of the first well expected in early 2022 and the other to immediately follow. These are the Pavo-1 well and the Apus-1 well and the Managing Directors' report will outline further details of these. Success in either of these prospects will be transformational in value for shareholders.

Carnarvon's exploration portfolio has some 10 offshore permits and licences stretching from the Carnarvon Basin to the Timor Sea. High grading of these was undertaken this year to ensure that future expenditure was consistent with realising the maximum value potential of an area. It would be no surprise that the outstanding potential lay in the four licence areas that were a part of the Bedout Basin. This is where most of Carnarvon's exploration funds will be spent in the future.

Against the background of this significant activity has been an overriding emphasis on Carnarvon's social licence and the subsequent ESG activities it has undertaken. Commitment to a net zero emission position by 2050 has been made, whilst current emissions are being totally offset. Moving into a production phase, emissions will rise substantially, and plans are being developed to minimise and offset these. A step in these plans is the joint venture that Carnarvon has established with Frontier Impact Group ("FIG") to build a biorefinery business in Western Australia based on waste lignocellulosic biomass as a feedstock. This business is very complementary to the significant increase in tree plantings that are now taking place across Western Australia as a carbon offset measure by many companies.

The coming year is both exciting and transformational for Carnarvon. The level of activity will be at an all-time high. With three wells to be drilled and with Dorado Field Development progressing shareholders have much to look forward to.

William (Bill) Foster
Chairman.

MANAGING DIRECTOR'S REVIEW

In the past year we have continued to make substantial progress in advancing our core projects whilst also positioning the Company for new opportunities that will enable it generate value and be part of the energy transition.

As outlined in our Net Zero by 2050 statement in July 2021, we believe that Carnarvon has an important role to play in the supply of energy in a responsible and sustainable manner. To this end, we hold the view that oil and gas, as well as other current and emerging energy supply sources and technologies will have an important place for decades to come.

We have also been observing for some time a reduction in oil project investments by energy companies that has the very real potential to cause supply to fall short of demand, resulting in oil prices increasing in the future. We aim to position the Company to benefit from this outcome by maintaining an appropriate balance of the portfolio in oil related assets.

As a result, Carnarvon will continue to focus on the delivery of its core projects in the near term. These include the Buffalo Field Redevelopment, the Dorado Field Development and significant exploration potential in the Bedout basin that hosts the Dorado field.

For the Buffalo Field Redevelopment, our objective has always been to secure a partner to share the cost, risk and rewards, drill the first well to confirm the resource and then bring the field into production in a timely manner.

In December 2020 we announced that Advance would join Carnarvon as a partner and capital provider, providing funding for the Buffalo-10 well, where Carnarvon is free carried to a gross cost of US$20 million. The subsequent cost of development will be funded by the third party lenders through the joint venture, with any additional funding requirements (above that provided by third party lenders) provided by Advance.

The Carnarvon team (as operator of the Buffalo Project) are in the process of preparing to drill the Buffalo-10 well in late October this year. At the time of writing, a drilling rig has been secured and important long lead items have been procured. Whilst there is still a significant amount of work to do to be ready for drilling operations, the activities are on schedule, even with the challenges posed by COVID-19 in Australia and Timor-Leste.

Behind the scenes, the Carnarvon team are also working on field development activities to allow the Buffalo field to be brought back into production as soon as practical after the Buffalo-10 well is drilled. These include consideration of a number of options to accelerate the development timeline, including the utilisation of facilities that are currently based in Asia.

An important facet in delivering the Buffalo Project is securing the necessary approvals of the Timor-Leste regulators. On behalf of the Carnarvon team, I would like to express our gratitude for the efforts of the regulators, particularly given the challenges of severe flooding and COVID-19 outbreaks. Carnarvon once again supported the Timor-Leste people, via UNICEF, with the funds this year being directed to assisting with local flood recovery efforts.

During the year we continued our work with Santos on refining the subsurface resource and production models and top surface facility design for the Dorado Field Development. In June 2021 we announced the commencement of FEED. This phase formalised the project scope of work and allowed for contracts to be prepared with the major engineering contractors. This next phase will deliver the final facility designs and costs which are expected by mid-calendar 2022. This represents an important milestone for the project and will allow the joint venture to take FID leading to the commencement of the construction phase.

Prior to making a FID, the joint venture plans to drill two high impact wells near the Dorado field. The first is the Pavo-1 exploration well with a resource range between 11 and 223 million barrels of oil equivalent. The second is the Apus-1 exploration well with a resource range between 31 and 706 million barrels of oil equivalent. Conceptually, volumes toward the lower to middle end of the range would be tied back to the Dorado field facilities. Outcomes at the higher end of the range could become standalone developments, recognising that they would be larger than the Dorado field.

Irrespective of whether a success case involves a tie back to the Dorado Field Development or a standalone development, the outcome will be transformational value wise for Carnarvon.

A drilling rig for the Pavo-1 and Apus-1 exploration wells has been contracted. The chosen rig, namely the Noble Tom Prosser, was used to drill the successful Dorado-2 and 3 appraisal wells. The rig is expected to drill the Pavo-1 well, as the first of the two wells, after it completes its other operations in late 2021. The Apus-1 well is scheduled to follow immediately after the Pavo-1 well is complete.

In terms of Carnarvon's other exploration initiatives, they will continue to be weighted towards the highly prospective Bedout basin, in which Dorado resides, with significant time being dedicated by the joint venture to this area.

During the year, two new 3D seismic programs commenced in the Bedout basin. The first 3D survey acquired data around the Dorado field and, from an exploration perspective, aims to enhance the joint venture's understanding of the prospect opportunities capable of being tied back to Dorado. The second 3D survey covered around 2,600 km^2 in WA-436-P and WA-437-P that was previously only covered by 2D data.

This area has exciting prospectivity and exploration potential based on the joint venture's current understanding of the basin.

For some time the Company has been considering its position on its future greenhouse gas emissions, how these might be mitigated or offset and the opportunity to participate in the energy transition.

In 2020 the Company released its first Sustainability Report. Internally, Carnarvon enhanced its financial modelling to include carbon pricing in its business decisions, reset its risk management processes for climate change and established a Risk, Governance and Sustainability Committee to ensure a targeted focus on ESG . In July 2021 the Company also announced a new partnership with FIG to build a renewable diesel and biochar production business using internationally proven processing technology.

In the future, the company envisages participating in nature based sequestration programs, notably tree planting, to contribute to delivering on its Net Zero by 2050 commitment. Many of these programs are expected to allow harvesting a portion of the plants for feedstock for the production of the renewable diesel and biochar.

The circular nature of this arrangement is one of the pathways to reduce Carnarvon's carbon intensity and deliver valuable products to consumers as they in turn seek to lower their carbon emissions, such as in mining, transport and agriculture. This arrangement provides a means of balancing lower carbon emissions while generating appropriate returns on our shareholder's capital.

Looking forward, our focus is on delivering our key projects, namely the Buffalo Field Redevelopment and Dorado Field Development, and progressing further our broader Bedout basin exploration. In these alone the Carnarvon team expects to be very active in the coming years. However, we also plan to pursue additional growth opportunities, such as maturing the renewable diesel and biochar business, and securing new opportunities where they make strong business sense and offer compelling value and earnings for shareholders.

Adrian Cook
Managing Director and Chief Executive Officer.

OPERATING AND FINANCIAL REVIEW

OVERVIEW OF OPERATIONS

THE HIGHLIGHTS FOR THE COMPANY DURING THE 2021 FINANCIAL YEAR WERE:

Successful farm-out of the Buffalo project to fund Buffalo-10 well costs up to US$20M on a free carry basis.

Carnarvon retains 50% interest in the Buffalo project and operatorship.

Buffalo-10 well preparations significantly advanced with drilling expected to commence in late October 2021.

Dorado phase-1 liquids development commenced Front End Engineering and Design (''FEED'').

Dorado Final Investment Decision (“FID’’) on schedule for mid-2022.

Rig secured to drill highly prospective Pavo-1 and Apus-1 exploration wells in Bedout basin.

Additional 3D seismic acquired over the Bedout Basin to unlock considerable prospectivity over the acreage.

Carnarvon commits to net-zero emissions by 2050, if not earlier.

Carnarvon formed a joint venture to produce renewable diesel and other sustainable products.

OPERATING AND FINANCIAL REVIEW

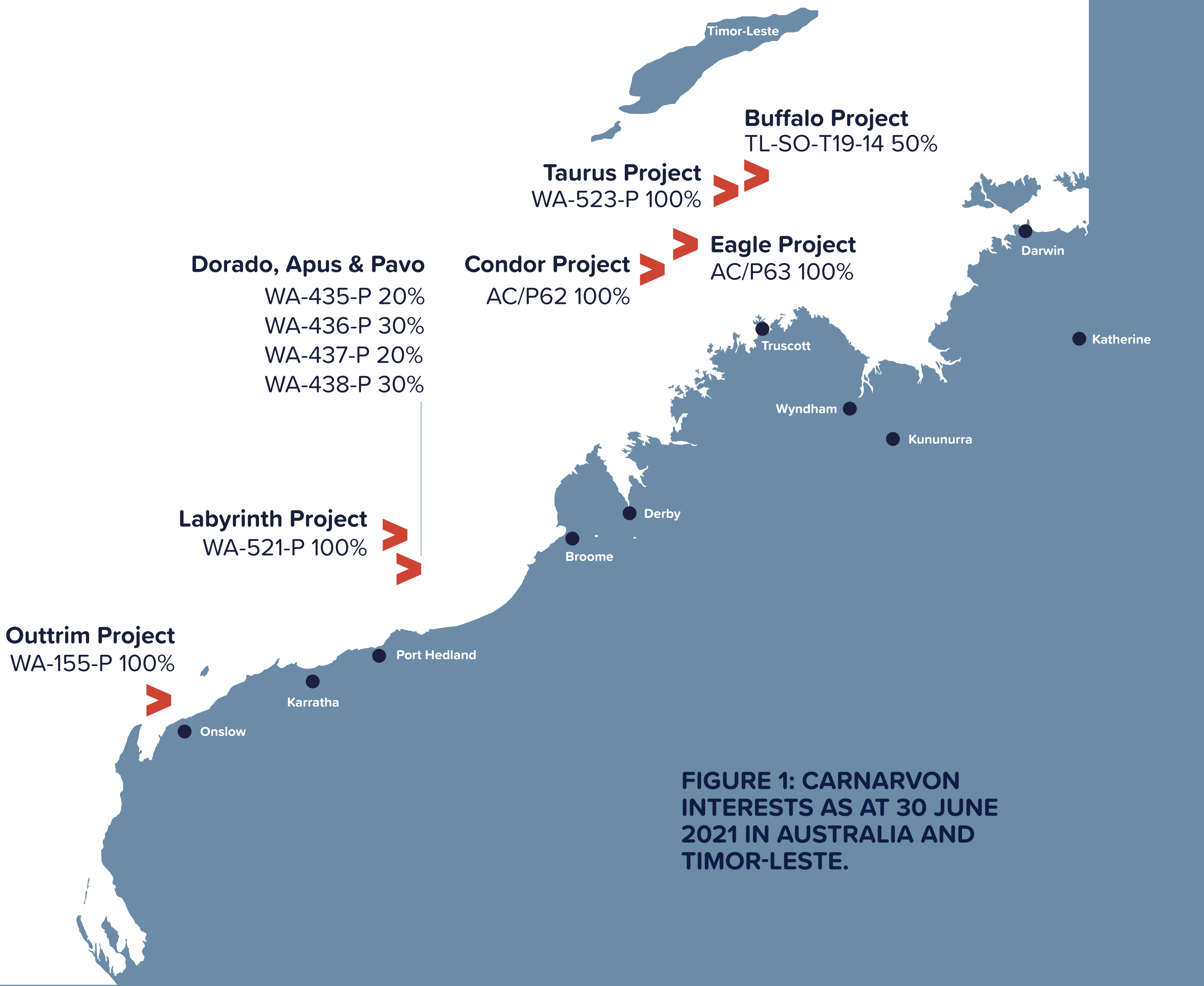

FIGURE 1: CARNARVON INTERESTS AS AT 30 JUNE 2021 IN AUSTRALIA AND TIMOR-LESTE.

OPERATING AND FINANCIAL REVIEW

DORADO PROJECT BACKGROUND

Carnarvon secured its interests in the Bedout Sub-Basin permits (WA-435-P, WA-436-P, WA-437-P and WA-438-P) in 2009. The offshore permits cover an expansive area of 21,652km^2 which is located approximately 110km from the coast, offshore of Port Hedland in Western Australia.

Historically, the Bedout Sub-Basin was significantly underexplored in comparison to the prolific Carnarvon Basin to the south-west and the Bonaparte Basin to the north-east. Exploration drilling within the area was limited to a string of four wells in the 1970's, which were followed by the Phoenix-1 and Phoenix-2 wells drilled in the early 1980's. At the time, these Phoenix wells were considered gas discoveries and were not pursued further. The unexplored potential across this vast area and the presence of hydrocarbons within the region, led to Carnarvon's initial interest in the basin.

Carnarvon's initial work on the permits involved an extensive geological study and the acquisition of modern 3D seismic data which was a marked upgrade to the existing legacy 2D seismic.

The 3D seismic acquisition confirmed two significant prospects in Phoenix South within WA-435-P and Roc in WA-437-P. As a result, interest in the permits grew and the Joint Venture farmed out equity in the project to new partners who funded the exploration drilling costs to test the Phoenix South and Roc targets.

The Phoenix South-1 well was drilled in 2014, discovering light oil within a high-quality reservoir. Success at Phoenix South was followed by the discovery and appraisal of a condensate rich gas in the Roc field. These results proved to be the catalyst for this region which warranted further exploration.

In 2018, the Dorado-1 exploration well discovered a significant light oil column and condensate rich gas in a number of additional reservoirs. The subsequent appraisal of the Dorado discovery was successfully completed with the well and flow test results exceeding pre-test expectations and confirming the high quality of the reservoirs in Dorado. Dorado is a world class discovery which has ignited interest in the Bedout Basin and has proven to be transformational for the Company.

Figure 2: Image of Nobel's Tom Prosser rig on site during the Dorado Appraisal campaign.

OPERATING AND FINANCIAL REVIEW

DORADO DEVELOPMENT (WA-437-P) (CARNARVON 20%, SANTOS IS THE OPERATOR)

The scale and quality of the Dorado Project enabled the joint venture to move quickly to the development planning phase. Key milestones towards the Dorado Field Development were achieved during the year, as the project evolved through the pre-FEED workflows before formally entering FEED prior to the end of the period.

Dorado production is planned to be conducted in a multi-phased development with the initial development involving the extraction of the liquids (oil and condensate). The field's gas and LPG's will be re-injected before being assessed for subsequent production in a second stage development. The reinjection of gases is expected to considerably enhance the recovery of the liquids from the field. As a result, the initial target gross oil production rate is expected to be between 75,000 to 100,000 barrels per day.

Plans for the phase 1 liquids will consist of a single Wellhead Platform ("WHP") in 90 meters of water depth, connected to a nearby Floating Production Storage and Offloading ("FPSO") vessel via sub-sea flowlines and control lines.

The WHP is designed to be a normally unmanned installation with minimal processing facilities. It will be remotely operated from the FPSO using the sub-sea control lines. The pre-FEED work during the year included a tendering process and Concept Select Definition for the construction and installation of the WHP.

The WHP will have the capacity to accommodate up to 16 individual wells from a single drill centre. For the initial Dorado production, the WHP is expected to host 8 to 10 wells, meaning it will have the capacity to accommodate production from possible future tie backs following future exploration successes within the area.

The FPSO is planned to be located around two kilometres from the WHP and will be connected to the seabed by a disconnectable turret mooring system. The FPSO includes the processing facilities for the oil and gas being delivered from the reservoir via the wells and the WHP and allows for storage of oil and condensate as well as offloading to a separate offtake tanker.

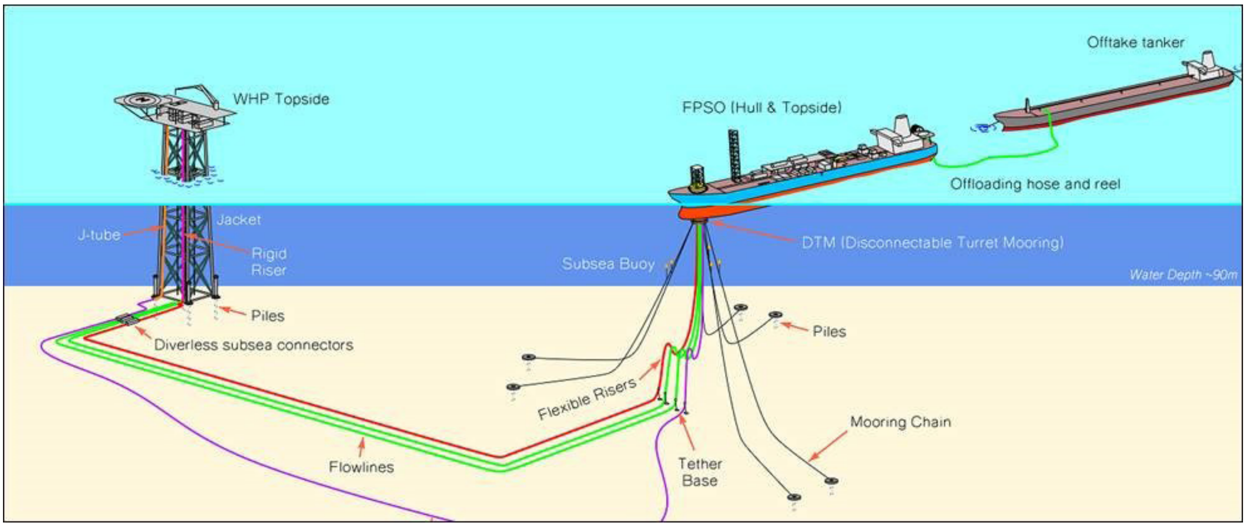

Figure 3: Proposed Dorado Field Development Layout.

OPERATING AND FINANCIAL REVIEW

During the year, the pre-FEED work for the FPSO included a design competition between three leading FPSO vessel contractors who worked independently to advance their FPSO designs and mature their vessel construction plans and supply terms. This competitive process ensures that the Joint Venture is able to consider the optimal technical design, cost and schedule for the provision of the FPSO.

At the end of the financial year, the pre-FEED work was completed enabling the project to formally commence FEED workflows. As a result, in August 2021, an FPSO FEED contract was awarded to Altera Infrastructure Production AS ("Altera"). In addition, the Dorado well head platform contract was awarded to Sapura Energy.

Entry through the FEED gate means that the project is on schedule for a Final Investment Decision around mid-2022.

EXPLORATION – GREATER BEDOUT AREA (WA-435-P, WA-436-P, WA-437-P AND WA-438-P) (CARNARVON 20%-30%, SANTOS IS THE OPERATOR)

Carnarvon's discoveries within the Bedout basin to date have high graded the numerous prospects across the vast acreage Carnarvon holds in the basin. Progress continued towards drilling the Pavo-1 and Apus-1 wells as Carnarvon and the Bedout Joint Venture are accelerating this potential.

On this basis, the Noble Tom Prosser rig has been secured to drill these wells, with the Pavo-1 well expected to spud early 2022. The Apus-1 well will commence immediately following the completion of the Pavo well.

Both wells are targeting prospects with similar interpreted trap, source, seal and reservoir characteristics to Dorado.

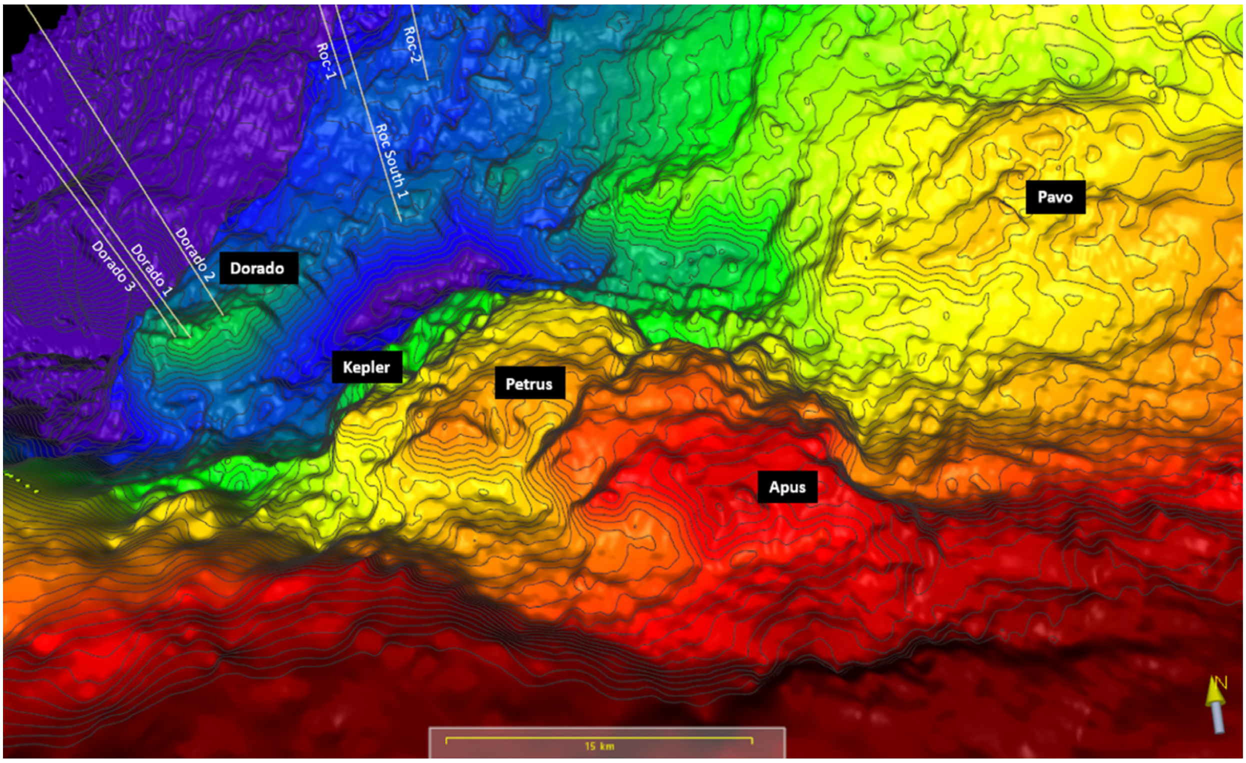

Figure 4: Map of top Caley/TR15 with well locations and significant prospects in the Bedout Sub-basin.

OPERATING AND FINANCIAL REVIEW

The Pavo-1 well is planned to be drilled in western WA-438-P, and targets mean recoverable volumes of 82 million barrels of liquid hydrocarbons and 108 Bcf of gas in the Caley Fm. The probability of geological success (Pg) is 34% (Refer to page 19).

Apus-1 is planned to be drilled in eastern WA-437-P. Apus-1 has two targets, with mean recoverable volumes of 235 million barrels and 408 Bcf (combined Caley and Milne Member sands) and a Pg of 23% (Refer to page 19).

Due to their proximity to the Dorado development, both prospects have tie-back potential to Dorado. Resources capable of being tied-back to existing infrastructure provide significantly enhanced economic outcomes, minimize additional capital investment requirements and shorten time periods to first production from the tie-back fields.

These prospects were progressed for drilling utilising the Keraudren 3D Seismic survey which was acquired in 2019. The Joint Venture also made significant progress in planning for exploration beyond the Apus and Pavo wells by investing in further data acquisitions during the year. Namely, the Archer and Keraudren Extension 3D Seismic acquisitions.

The Archer 3D was primarily acquired over the Dorado field with an alternative azimuth to the existing data sets. This will complement the existing data sets to support the Dorado development and ensure the optimal placement of wells. The Archer 3D also encompassed an area to the south-west of the Dorado field which will allow for a thorough review of the attractive exploration potential in the area.

Given the proximity of this region to the planned Dorado Field development area, any discoveries in this area could be tied back to the Dorado facilities. There is, however, potential for larger discoveries to result in a standalone development.

A fast-track processed volume of the Archer 3D will be available for interpretation later in 2021.

The Keraudren Extension 3D seismic ("KE-3D") survey commenced following the completion of the Archer 3D acquisition, utilising the same vessel.

The KE-3D survey will cover an approximate 3,200km area (within the WA-436-P and WA-438-P permits) to the northwest of the Dorado development. This area has over 30 prospects and leads already identified using the existing 2D data which will be illuminated by the KE-3D data.

The Archer and KE-3D surveys are important elements towards further unlocking Carnarvon's commanding acreage in the emerging Bedout basin. There are currently over 200 identified prospects and leads across the Bedout permits, most of which are covered by 2D data. The Archer and KE-3D data sets are expected to enhance some of these prospects for further near-term exploration.

BUFFALO PROJECT BACKGROUND (CARNARVON 50% 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.

Carnarvon initially focused its technical work on reprocessing the existing 3D seismic data set using state of the art Full Waveform Inversion (FWI) technology. This work supported the interpretation of a significant attic oil accumulation remaining after the original development because of potentially sub-optimal positioning of the previous development wells due to the seismic processing capability of that time.

Reservoir modelling has been conducted using the latest structural interpretation and available data, including an extensive history-matching effort to calibrate model well performance to historical production rates and water-cut development (governed by strong aquifer drive) observed during the original production period.

Based on this work, independently audited volumetric estimates of contingent resources in the Buffalo oil field are 31.1 million barrels (2C) with low estimates of 15.3 million barrels (1C) and high estimates of 47.8 million barrels (3C) (refer to page 18).

OPERATING AND FINANCIAL REVIEW

Figure 5: PSC signing Ceremony in Dili, Timor-Leste.

In August 2019, a treaty was ratified between the Governments of Australia and Timor-Leste which meant the Buffalo oil field redevelopment will occur under Timor-Leste juridication. One of the key conditions of the treaty was that the affected parties, such as Carnarvon, would be granted security of title with conditions equivalent to those previously in place under Australian domestic law. Importantly, Carnarvon's PSC achieves a similar net back after government taxes and duties to Carnarvon, when compared to Australia's offshore PRRT regime.

BUFFALO PROJECT (TL-SO-T 19-14 PSC) (CARNARVON 50% AND OPERATOR)

Plans to redevelop the Buffalo oil filed were materially progressed during the year. Preparations for drilling the Buffalo-10 well are well progressed with the well planned to commence drilling in October 2021. The well is being designed to target the attic oil remaining from the field's original development.

A jack-up drilling rig has been selected and the Buffalo Joint Venture has signed a Letter of Intent ("LOI") with the relevant rig contractor. A formal contract, consistent with the terms of the LOI, is now being finalised.

In addition, procurement of Long Lead Items ("LLIs") has been completed, and significant progress has been made on procuring the remainder of the items and services for the well campaign. Considerable progress has also been made to secure the necessary Timor-Leste Government approvals for drilling the well.

Signing the rig LOI is a significant milestone for the Buffalo project. The LOI, along with the procurement of LLIs, has been essential in ensuring that the schedule is maintained.

The work to date has been significantly enhanced by the appointment of Petrofac to provide drilling management services for the Buffalo-10 well. A Petrofac team has been embedded into Carnarvon's operational team and has complemented Carnarvon's operational capabilities.

The catalyst for this increased operational activity was provided through securing funding for the Buffalo-10 well. During the year, Carnarvon completed a 50% farm-out of the Buffalo project to Advance Energy PLC ("Advance").

Following the farm-out, Advance will fund the Bufaflo-10 well up to US$20 million on a free carry basis. This means there will be no cost to Carnarvon unless the well costs exceed US$20 million. Carnarvon has also retained operatorship of the project.

Following a successful result in the Buffalo-10 well, the newly formed joint venture will acquire development funding from third party lenders and any additional funding requirements (above that provided by third party lenders) will be provided by Advance as an interest free loan.

The transaction is an important element of Carnarvon's strategic objectives as the Company prudently manages its balance sheet in order to both drill the Buffalo-10 well and progress the development of the Dorado project.

OPERATING AND FINANCIAL REVIEW

Figure 6: View of the beach near Fatucama Cristo Rei, Dilie, Timor-Leste.

TAURUS PROJECT (WA-523-P) (CARNARVON 100% AND OPERATOR)

A significant portion of the WA-523-P exploration permit remained in Australian waters following the maritime boundary change between Australia and Timor-Leste in 2019.

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.

The standout prospect is Angus, which is a dual stacked Jurassic and Triassic structure. The Triassic structure is almost 70 square kilometres in area and with the overlying Jurassic, it could be a very significant oil discovery in the region. Within WA-523-P there are several follow-up drilling targets at Jurassic and Triassic levels. WA-523-P is an excellent exploration block as it is within the known Jurassic petroleum system, likely to be oil bearing rather than gas, with excellent reservoir rocks. The upside in the permit is the unproven and undrilled Upper Triassic interval, well known onshore Timor-Leste to be the source for many of the known oil seeps. A discovery within the Triassic interval would open up a new petroleum province in the region and could have a significant effect on Carnarvon's exploration portfolio in this region.

CONDOR AND EAGLE PROJECTS (AC/P62 AND AC/P63) (CARNARVON 100% AND OPERATOR)

Carnarvon was awarded the AC/P62 (Condor) permit in November 2017 and the AC/P63 (Eagle) permit in February 2018, both located 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 and gas fields. The acquisition of brand new MC3D Cygnus PSDM seismic data has been instrumental 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 across the Condor and Eagle projects. Within the Condor project, four substantially sized Late Permian carbonate reef prospects have been identified, a new play type for the North-West Shelf of Australia. Of the four prospects, Moa is the preferred target at 132 square kilometres and 350m relief with access to two source kitchens and hosts seismic evidence for porosity enhancement. The additional Permian prospects, Pterosaur, Kelenken and Titanis are also substantially sized and provide significant running room with all three prospects sitting in jack-up water depths.

OPERATING AND FINANCIAL REVIEW

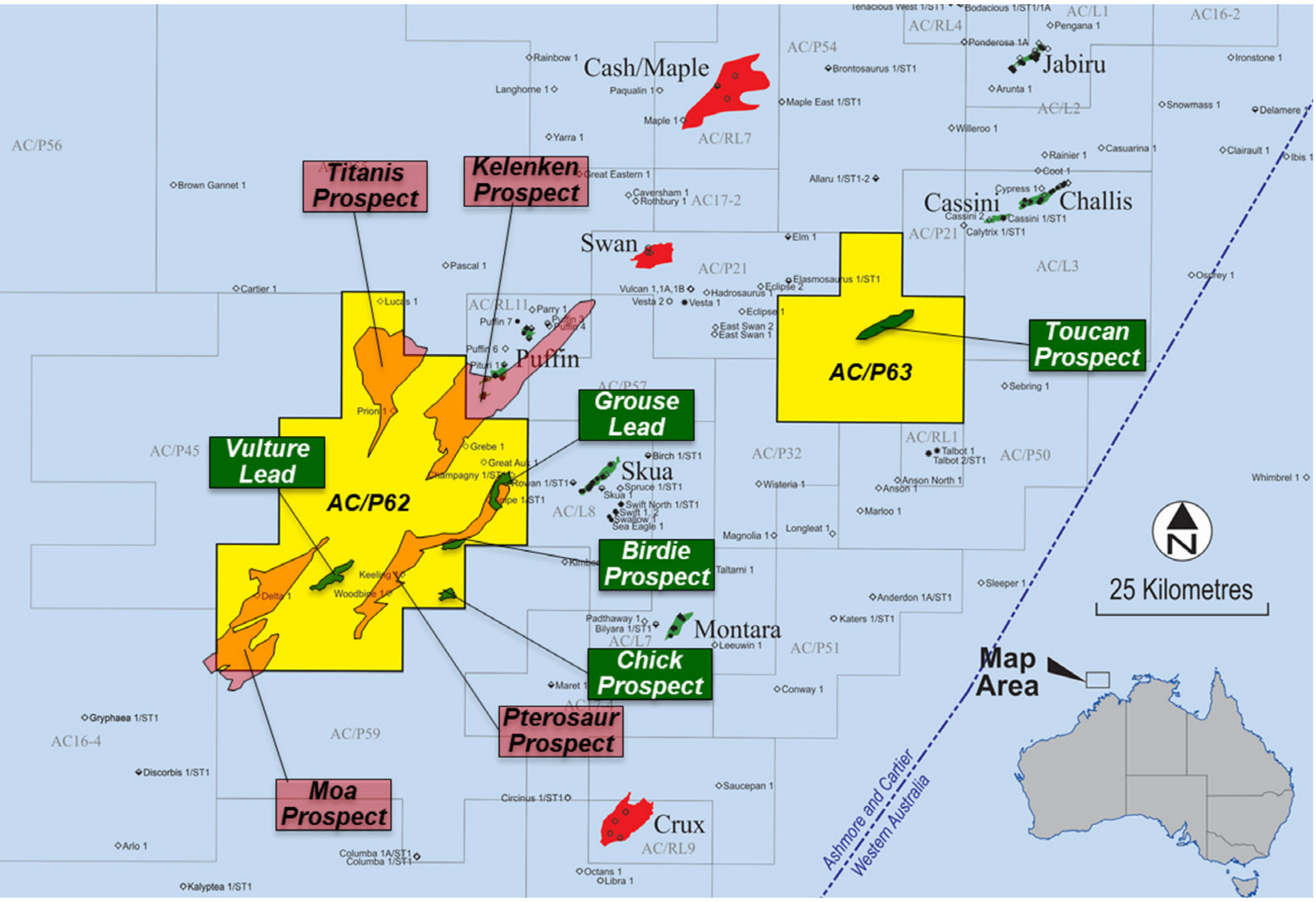

Figure 7: Outline of the AC/P62 and AC/P63 permits including identified prospects and leads.

In 2020, Carnarvon was granted a suspension and extension approval from the regulator for the AC/P62 permit. The grant and approval for AC/P62 has allowed Carnarvon additional time to assess the Cygnus Phase 3 South dataset, which became available at the start of this year. This Cygnus Phase 3 South dataset covers an additional 317 square kilometre region of the permit, which has historically only been covered by 2D seismic.

The technical work undertaken on the Cygnus Phase 3 South has helped de-risk the key play elements of the Permian prospects as well as revealing the Grouse lead. The Grouse lead is a Middle Jurassic, fault bounded structure with 12 square kilometre areal closure, 140m relief and sits within jack-up water depths. The Grouse prospect directly drapes over the Permian Pterosaur prospect with close access to the proven and prolific Swan Graben source kitchen.

Carnarvon was also granted a suspension and extension approval for the Eagle permit, AC/P63. The approval was to accommodate for the delays which have been experienced due to the COVID-19 restrictions.

The technical work to date has successfully de-risked the reservoir, presence of oil and the quality of hydrocarbons in the Eagle project. 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 AC/P63 is the Toucan prospect. Toucan is a large, Middle Jurassic, fault bounded structure with seven square kilometre areal extent and 140 metre 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 (Malita, Plover and Lower Vulcan) oil-prone source rocks.

OPERATING AND FINANCIAL REVIEW

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

Carnarvon is currently seeking farm-in interest for the Condor and Eagle projects in order to progress the exciting prospects they contain.

OUTTRIM PROJECT (WA-155-P) (CARNARVON 100% AND OPERATOR)

The Outtrim project, WA-155-P, is in the Barrow Sub-Basin, within the Carnarvon Basin of the North-West Shelf of Australia.

During the year, Carnarvon and its former joint venture partner in the permit, Skye Exploration ("Sky"), completed an agreement whereby Carnarvon acquired 100% interest in the permit. Both parties will now apply for a retention license over the area of the Outtrim-East discovery and once granted, Skye will acquire a 100% equity interest in the retention license.

The Outtrim permit contains 3 graticular blocks, one of which contains the Outtrim discovery. Following the grant of the retention lease, Carnarvon will retain 100% interest in the remaining WA-155-P exploration permit which will comprise the remaining 2 graticular blocks.

As the marginal Outtrim discovery was not material to the Company's portfolio, this outcome allows Carnarvon to advance the Palmerston prospect and other exploration targets at 100% equity. Carnarvon can also work towards a more desirable farm-out outcome for the project at this equity level.

The Palmerston prospect, which is located in the north-east graticular block of the permit, is a fault bounded late Triassic structure which sits on the eastern side of the Alpha Arch.

This late Triassic play has been successful in the Gorgon field, and there have been several discoveries on the Alpha Arch which have proved a working petroleum system in the region.

Carnarvon believes there could be significant gas potential in this area of the Southern Carnarvon Basin, and is actively looking for a potential farm-in partner.

LABYRINTH PROJECT (WA-521-P) (CARNARVON 100% AND OPERATOR)

WA-521-P ("Labyrinth Project") 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 de-risked following the Bedout discoveries. Carnarvon holds 100% equity in the WA-521-P permit, comprising an area of approximately 5,057 square kilometres.

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.

During the year, Carnarvon received a suspension and extension approval from the regulator for the WA-521-P permit.

The 12-month extension is to accommodate for the delays which have been experienced due to the COVID-19 restrictions which have impacted the Company's work.

The additional time will allow Carnarvon to continue its review of the interpretive well reports and samples for the nearby Anhalt-1 and Hannover South-1 wells. This well data recently became open file and available to the Company.

Anhalt-1 and Hannover South-1 were the first wells to test the stratigraphy nearby the Labyrinth permit. Their results will be incorporated into Carnarvon's knowledge of the greater Triassic plays.

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The analysis from the well reports could also potentially upgrade and de-risk the presence of source rock for the Labyrinth targets. The analysis will also refine the location of the proposed 2D cubed seismic project which has been deferred to allow for this analysis.

The focus of the Labyrinth Project is the Ivory prospect which could target dual reservoirs with one well. The first target is the Mid-Jurassic Lower Depuch Formation which is proven to be an excellent quality reservoir. The secondary target is in the early Jurassic Upper Bedout Formation which also has the potential to have excellent reservoir quality as encountered in the sands in the Roc-2 well at this depth.

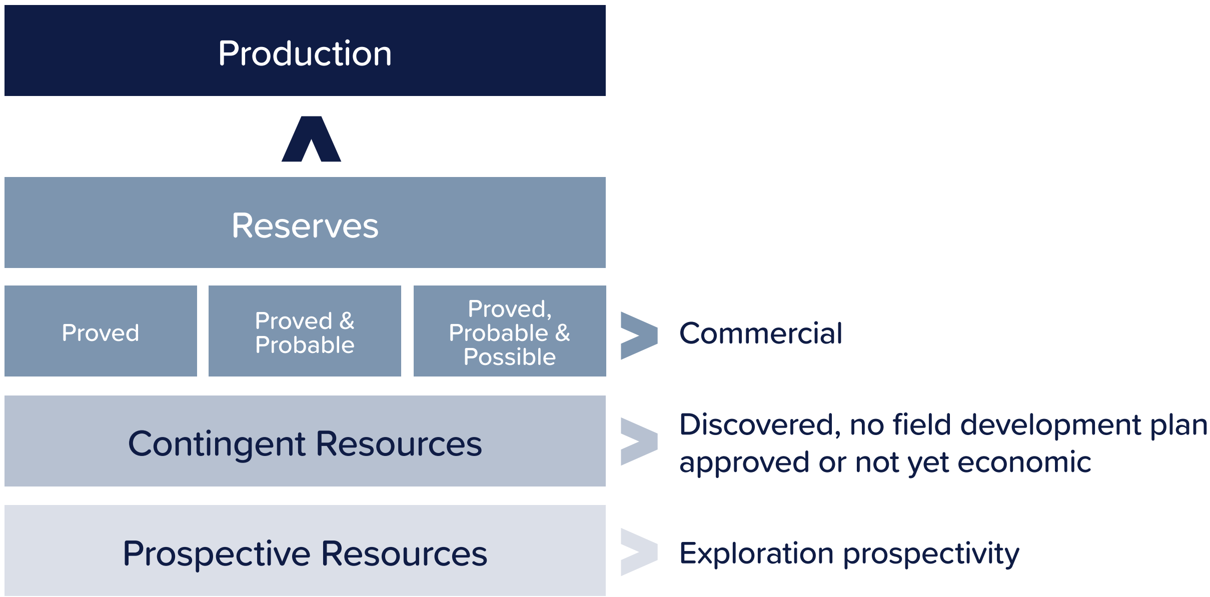
RENEWABLE FUELS (CARNARVON 50%)

In July 2021, Carnarvon formed an incorporated joint venture with Frontier Impact Group ("FIG") under the name FutureEnergy Australia Pty Ltd ("FEA"). FEA is actively developing a commercial and sustainable biorefining business that produces "drop-in" renewable diesel (not biodiesel), high-quality biochar and wood vinegar in Western Australia.

The biorefinery business is intended to be carbon-negative and will likely attract Australian Carbon Credit Units ("ACCUs") once FEA is operating at scale. The ACCUs generated by the biorefinery business are proposed to be acquired by Carnarvon to help offset the forecasted emissions profile from Carnarvon's oil projects, and support Carnarvon's commitment to carbon neutrality by 2050.

FEA's first biorefinery is expected to enter FEED in the September 2021 quarter, and the expected FID date is late Q1 2022. Other aspects of the project, including securing feedstock supply, product offtake contracts and regulatory approvals, are on track to meet the FID date. FEA is targeting first production from the biorefinery in Q4 2022 or early Q1 2023.

FEA has undertaken extensive engagement with State and local governments, who have shown considerable support for the project. The project will support economic development in the South-West of Western Australia, bringing approximately 126 direct and indirect jobs to the region.



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.

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Gross Contingent Resources (100%)

		Light Oil and Condensate			Free & Associated Gas			Barrels of Oil Equivalent		
Gross at 30 June 2020		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**	**248**	**477**	**844**

		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	WA-437-P	-	-	-	-	-	-	-	-	-
Roc	WA-437-P	-	-	-	-	-	-	-	-	-
Phoenix South	WA-435-P	-	-	-	-	-	-	-	-	-
Phoenix	WA-435-P	-	-	-	-	-	-	-	-	-
Buffalo	WA-523-P	-	-	-	-	-	-	-	-	-
Total		-	-	-	-	-	-	-	-	-

		Light Oil and Condensate			Free & Associated Gas			Barrels of Oil Equivalent		
Gross at 30 June 2021		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**	**248**	**477**	**844**

Net Contingent Resources (Carnarvon's Share)

Net at 30 June 2021		Light Oil and Condensate			Free & Associated Gas			Barrels of Oil Equivalent		
		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	-	1	3	-	-	-	-	1	3
Buffalo	WA-523-P	8	16	24	-	-	-	8	16	24
Total		**29**	**57**	**97**	**114**	**216**	**388**	**54**	**105**	**183**

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				Free & Associated Gas				Barrels of Oil Equivalent				Probability Geological Success	Risked MMBOE Pmean
			MMBBL P90	MMBBL P50	MMBBL Pmean	MMBBL P10	BSCF P90	BSCF P50	BSCF Pmean	BSCF P10	MMBOE P90	MMBOE P50	MMBOE Pmean	MMBOE P10		
Pavo	WA-438-P	30%	3	19	25	54	1	9	32	75	3	20	30	67	34%	10.3
Apus [i]	WA-437/8-P	25%	7	40	59	134	8	53	102	241	8	49	77	176	23%	17.6
Petrus	WA-437/8-P	20%	2	7	9	18	3	11	16	34	3	9	12	24	29%	3.5
Kepler	WA-437/8-P	20%	1	2	2	5	1	2	4	9	1	2	3	7	30%	0.9
Roc-2 C/D	WA-437-P	20%	0	0	0	0	2	4	5	8	0	1	1	2	66%	0.7
Roc Satellites	WA-437-P	20%	0	0	0	1	1	5	6	12	0	1	1	3	45%	0.6
Bewdy	WA-437-P	20%	0	0	1	3	0	0	1	3	0	0	1	3	32%	0.4
Bottler	WA-437-P	20%	0	1	1	3	-	-	-	-	0	1	1	3	32%	0.4
Peng	WA-437-P	20%	0	0	0	1	0	1	1	2	0	0	1	1	40%	0.2
Mensa Caley	WA-435-P	20%	0	1	2	5	3	12	18	40	1	3	5	12	17%	0.9
Mensa Barret (Phoenix)	WA-435-P	20%	0	3	7	17	-	-	-	7	0	3	7	18	38%	2.5
Lupus	WA-435-P	20%	0	0	0	1	0	3	14	18	0	1	3	4	14%	0.4
Indus	WA-435-P	20%	0	0	1	2	0	7	14	36	0	2	3	8	14%	0.4
Ara[ii]	WA-435/6-P	25%	0	5	11	29	-	-	-	-	0	5	11	29	10%	1.1
Bandy Rankin[ii]	WA-435/6-P	25%	0	4	9	23	-	-	-	-	0	4	9	23	14%	1.2
Belgravia	WA-155-P	100%	0	1	5	13	11	125	308	774	2	23	59	149	29%	17.2
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			**137**	**946**	**1,717**	**4,141**	**30**	**232**	**521**	**1,258**	**142**	**987**	**1,808**	**4,361**		**294.3**

(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 2021 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.

OPERATING AND FINANCIAL REVIEW

FINANCIAL REVIEW

The Group reports an after-tax profit of $17,136,000 for the financial year ending 30 June 2021 (2020: loss: $4,137,000). The primary contributing factor to the profit result was the farm out of the Buffalo project to Advance Energy.

Carnarvon's balance sheet remained strong with cash and cash equivalents of $98,436,000 (2020: $113,632,000), no debt and minimal commitments going forward.

On 19 April 2021, Carnarvon successfully completed a 50% farm-out of the subsidiary which held its interest in the Buffalo project in Timor-Leste. As a result, the Company recognised a gain on disposal of subsidiary of $23,635,000 (2020: $0). Going forward, the interest in the Buffalo project will be accounted for as a Joint Venture as per AASB 11 under the equity accounting methodology. On this basis, the Company recorded a value of $26,199,000 (2020: $0) at the end of the period for its investment in the Joint Venture. This includes Carnarvon's 50% share of the loss incurred by the Joint Venture of $77,000 (2020: $0) between the date of the farm-out and the end of the period.

The Company invested a further $6,878,000 on its exploration and evaluation assets. Most of these costs were in relation to pre-Front End Engineering and Design work for the Dorado development and the acquisition of the Archer and Keraudren Extension 3D seismic acquisitions within the Company's Bedout permits.

The Company recorded A$1,339,000 (2020: $1,037,000) in other financial assets as at 30 June 2021. This represents the current value of the shares held by Carnarvon in CWX Global Limited (formerly Loyz Energy Limited) ("CWX"). The value reflects the increase in the value of the shares during the year which has been recorded in the income statement for the year ended 30 June 2021. 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 $2,049,000 (2020: $1,393,000) 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 loss on foreign exchange of $1,244,000 (2020: gain: $847,000) due to the effect of an appreciation 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.

RISK MANAGEMENT

Carnarvon recognises the importance of risk management in order to deliver the Company's strategies and to provide sustainable value growth to shareholders. Carnarvon manages its risks in accordance with its risk management policy to ensure the critical risks are identified, managed and monitored.

The Company's risk management framework is overseen by the Risk, Governance and Sustainability Committee. This oversight of the effectiveness of the risk management processes and activities provides assurance to the Board and shareholders and supports the Company's commitment to continuous business improvement.

OPERATING AND FINANCIAL REVIEW

MATERIAL BUSINESS RISKS

Safety, Environment and Sustainability:

Health, Safety and Environment

Oil and gas exploration, development and production involve a variety of risks which may impact the health and safety of Carnarvon's people, communities, and the environment. There is a risk of injury or negative health or wellbeing for Carnarvon's employees. These impacts could also lead to reputational damage or fines to the Company.

Carnarvon's projects are also subject to various laws and regulations regarding the environment. Carnarvon's exploration, development and production can be potentially environmentally hazardous giving rise to substantial costs for environmental rehabilitation, damage control, and losses.

Carnarvon ensures that it maintains very high standards for health, safety, and environment ("HSE") management. Carnarvon also actively manages its HSE risks which is embedded in its operations and risk management framework. This includes ensuring appropriate HSE systems are in place and insurances are maintained.

Where Carnarvon does not directly manage its exploration and development activities, as a non-operating partner, Carnarvon ensures it partners with companies that maintain very high standards for health, safety, and environment HSE management.

Climate Change

Climate change and management of carbon emissions may affect Carnarvon's operations, the markets for oil and gas and the funding and insuring of projects. Potential risks arising from physical changes caused by climate change include increased severe weather events and rising sea levels which may impact the Company's operations. There are also risks arising from policy changes by governments which may result in increasing regulation and costs which could have a material adverse impact on the Company's operations.

Carnarvon recognises climate-related risks and the need for these to be managed effectively particularly across the energy industry. As a result, the Company actively monitors current and potential areas of climate change risk. Carnarvon is also currently in the process of developing a roadmap to a lower carbon economy and expect that the direction we take will evolve over time utilising a variety of technologies.

Importantly, Carnarvon has committed to net zero carbon emissions from its operations by 2050, if not earlier. Carnarvon has offset its current Scope 1 and Scope 2 emissions, which at this time are derived from our head office.

With respect to our future assets such as Buffalo and Dorado, we are committed to working with our partners to reduce emissions from the proposed operations and will continue to develop our plans to offset emissions from these projects as they mature.

Carnarvon has also commenced diversifying its portfolio into lower carbon intensive assets which provide appropriate returns to shareholders. This includes a joint venture the Company has entered into with FIG to produce renewable diesel and other sustainable products.

Economic and Financial Risks:

Additional information on financial risks are contained in Note 27.

Oil Price

The financial performance, future value and growth of Carnarvon is dependent upon the prevailing price of oil. The price of oil is subject to fluctuations and is affected by numerous factors beyond the control of Carnarvon.

A sustained period of low or declining oil prices could adversely affect the carrying value of Carnarvon's assets and the commercial viability of future developments.

Carnarvon monitors and analyses oil markets and seeks to reduce the price risk where reasonable and practical. Carnarvon will develop a hedging strategy upon sanction of future projects. Due to the early stage of Carnarvon's projects, Carnarvon does not have any active hedges against the price of oil. Once Carnarvon's projects develop further, the Company may enter hedging contracts to mitigate against fluctuations in the price of oil.

Foreign Currency Exchange

Carnarvon's financial report is presented in Australian dollars, however, Carnarvon holds funds in both AUD and USD. The retention of US dollars influences Carnarvon's reported cash holdings due to AUD / USD exchange rates at each reporting period year end which may result in foreign exchange gains or losses in each period. Carnarvon also incurs some costs in foreign currencies, typically US dollars, which means Carnarvon is subject to fluctuations in the rates of currency exchanges.

To mitigate against these foreign currency exchange fluctuations, Carnarvon holds a balance between USD and AUD as a natural hedge to committed future expenditures denominated in both USD and AUD. Once Carnarvon's projects develop further, the Company may enter into hedging contracts to mitigate against fluctuations in foreign currency exchanges.

Funding Risk

The nature of Carnarvon's business involves significant capital expenditures on exploration, appraisal, and potential development activities. Carnarvon's business and the development of large-scale projects in which Carnarvon pursues, relies on access to debt and equity funding.

Limitations on Carnarvon's ability to access funding could result in the postponement or reduction of capital expenditures, the relinquishment of rights in relation to assets, adversely affect Carnarvon's ability to take advantage of opportunities and restrict the expansion of the business. These could result in a material adverse effect on Carnarvon's business, financial condition, and operations.

Carnarvon establishes funding plans for its material projects to ensure that the optimal funding is obtained to maximise shareholder value. This includes an economic and commercial analysis of projects and funding and ensuring that potential funding complies with Carnarvon's risk management framework. Carnarvon also prepares short and long-term budgets and financial models which are monitored monthly in order to identify and manage any potential risks.

Operational Risks:

Exploration

Exploration is a speculative endeavor with an associated risk of discovery to find any oil and gas in commercial quantities and a risk of development. The future profitability of Carnarvon directly relates to the results of exploration, development, and production activities. If Carnarvon is unsuccessful in locating and developing new reserves and resources that are commercially viable, this may have a material adverse effect on Carnarvon's future business, operations, and financial conditions.

Carnarvon utilises well-established prospect evaluation and experienced personnel to identify and evaluate prospects in order to manage exploration risks. Carnarvon also has a process to ensure major decisions are subject to assurance reviews which include external experts and contractors where appropriate.

Joint Venture Operations

Carnarvon participates in a number of joint ventures. This is a common form of business arrangement particularly in the oil and gas industry in order to share the benefits, risks and costs associated with projects. Subject to any sole risk development rights which may exist in joint venture agreements, Carnarvon may require the agreement of other joint venturers to proceed with an exploration or development project. Failure to agree on these matters may have a material adverse effect on Carnarvon's business.

To the extent that Carnarvon is a minority partner in a joint venture, Carnarvon is dependant on the efficient and effective management of those operating companies as managers. The objectives and strategies of these operating companies may not always be consistent with the objectives and strategies of Carnarvon. However, operators must act in accordance with the directions of the relevant voting majority or by the voting principles of the joint venture.

OPERATING AND FINANCIAL REVIEW

Carnarvon must also pay its percentage interest share of all costs and liabilities incurred by the joint venture as required under the relevant joint venture arrangements. If Carnarvon fails to meet these obligations it may experience a dilution of its interests in the joint venture or may not gain the benefit of the activities, except at a significant cost penalty later in time.

Carnarvon manages joint venture risks through careful joint venture partner selection, stakeholder engagement and relationship management. Commercial and legal agreements, including appropriate joint venture arrangements, are in place across all joint ventures to define the responsibilities and obligations of the joint venture.

Resource Estimates

Oil and gas resource estimates are expressions of judgement based on knowledge, experience, and industry practice. Estimates which are valid when originally calculated may alter significantly or become uncertain when new information becomes available. Material changes to resource estimates may result in Carnarvon altering its plans which could have a positive or negative effect on its operations.

Carnarvon prepares its reserves and contingent resources estimates in accordance with the definitions and guidelines in the Society of Petroleum Engineers 2007 Petroleum Resources Management Systems. Carnarvon engages personnel with an appropriate level of skill and experience to prepare and review its resource estimates. The assessment of Reserves and Contingent Resources may also undergo independent audit and review.

Development

The development of Carnarvon's projects is subject to a range of risks and uncertainties. These developments are exposed to the risk of low side reserve outcomes, cost overruns, timing delays and production decreases. A significant poor development outcome could result in material adverse impacts to reserve and production forecasts, future revenues, and operating costs.

Carnarvon mitigates these risks through the careful selection of joint venture partners, where possible, ensuring the utilisation of high quality and experienced contractors throughout the development process and conducts a series of assurance and analysis procedures prior to committing to a development.

Regulatory

Carnarvon operates in highly regulated industries and jurisdictions. Changes in regulations or enforcement actions could have material adverse impacts on Carnarvon. Changes in government, monetary, taxation, operational and other laws in the countries in which Carnarvon operates may also impact Carnarvon's operations.

Carnarvon also holds interests in permits which are governed by the granting of contracts, licenses, permits, or leases by the appropriate government authorities. Carnarvon may lose title to or its interest in a permit if license conditions are not met or insufficient funds are available to meet expenditure commitments.

Carnarvon monitors changes in relevant regulations and engages with stakeholders to ensure their concerns are managed and that policy changes are understood, to ensure the Company complies all regulatory requirements.

Foreign Operations

Some countries within which Carnarvon operates are developing countries that have political and regulatory structures that are maturing and have potential for future change. There is the risk that certain events can have a material impact on the investment and security environment within these countries which could impact the assets held by Carnarvon.

Carnarvon closely monitors the political developments and events in the countries in which it operates. Carnarvon engages with stakeholders in these countries and maintains local offices which are locally staffed and provide close monitoring and feedback to head office management.

Key Personnel

Skilled employees and consultants are essential to the successful delivery of Carnarvon's business strategy. Carnarvon relies on the services of certain key management personnel, including its executive officers, other key employees, and consultants. The loss of any of these key personnel could have a material adverse effect on Carnarvon's business.

Carnarvon ensures it maintains competitive remuneration practices relative to its industry, including long and short-term incentive schemes, to ensure it maintains the services of its key personnel and has the ability to attract additional personnel as required.

OPERATING AND FINANCIAL REVIEW

Carnarvon maintains clear and regular updates on strategy and business planning to provide clarity of the Company's ongoing plans. Guidance and opportunities are provided for staff to foster their careers and to achieve personal and business goals aligned with the Company's strategy. Succession plans for key personnel are also prepared when required.

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-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%	FEED, Exploration Drilling
WA-438-P	Roebuck	30%	Santos Limited [i]	70%	Exploration Drilling
WA-155-P	Barrow	100%	-	-	G & G Studies
R 7	Perth	2.50% of 42.5% [ii]	-	-	Appraisal
Timor-Leste					
TL-SO-T 19-14 PSC	Bonaparte	50%	Advance Energy PL	50%	Exploration Drilling

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 2021, 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.

William (Bill) A Foster

Chair
BE (Chemical)

Appointed as a director on 17 August 2010 and appointed as Chair on 11 November 2020.

Bill is an internationally experienced energy executive who has worked with Chevron, a Middle Eastern National Oil Corporation as well as US and ASX listed independents. He spent 30 years with Marubeni Corporation as Energy Advisor until his recent retirement, assisting in the development of their Oil, Gas and LNG business. During this time, a global business was established with Tokyo, London, Houston, Singapore and Perth offices. Mr Foster was a director of Marubeni's various exploration and production subsidiaries and a former director of Tap Oil Ltd.

Bill's activities have covered a broad range of areas relevant to the oil and gas industry and he has extensive, commercial, financial and mergers and acquisitions experience, as well as that from his engineering background.

During the past three years Bill was a director of Hawkley Oil and Gas Limited (retired 2019).

Peter J Leonhardt

Chair (retired on 11 November 2020)
FCA, FAICD (Life)

Appointed as a director on 17 March 2005 and appointed Chair in April 2005. Retired as Chairman and non-executive director on 11 November 2020.

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).

DIRECTORS' REPORT

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 energy 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.

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 Beach Energy Limited (since 2017).

Dr Moore is Chair of the Risk, Governance and Sustainability Committee and a member of the Audit Committee and the Remuneration and Nomination Committee.

DIRECTORS' REPORT

Gavin Ryan

Non-Executive Director
LLB (Hons), MAICD

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 relations, 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 Committee and the Risk, Governance and Sustainability Committee.

Debra Bakker

Non-Executive Director
(Appointed on 5 October 2020)
MAppFin., BBus. (FinAcc), Grad Dip FINSIA, GAICD

Debra is an experienced financier and deal maker with more than 27 years' experience in the resources industry with significant international experience. Debra has previously held senior positions with Commonwealth Bank of Australia, Standard Bank London Group and Barclays Capital. Debra is the also an experienced non-executive director having held a number of positions with ASX resource companies.

During the past three years, Ms Bakker has served as a non-executive director for IGO Limited (since 2016), Azumah Resources Ltd (ceased 2019) and Capricorn Metals Ltd (ceased 2019).

Ms Bakker is Chair of the Audit Committee and a member of the Remuneration and Nomination Committee and the Risk, Governance and Sustainability Committee.

Mr Thomson Naude

Mr Alex Doering

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.

Mr Alex Doering was appointed as Joint company secretary in August 2019. Mr Doering is a qualified Chartered Accountant, an Associate of the Governance Institute of Australia and the Financial Controller 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 [1]	9	9
WA Foster [2]	15	15
AC Cook	15	15
P Moore	15	15
SG Ryan	15	15
D Bakker [3]	10	10

(a) Number of meetings held and eligible to attend during period of office
(b) Number of meetings attended
1 Mr Leonhardt retired from the Board on 11 November 2020.
2 Mr Foster was appointed as Chairman on 11 November 2020.
3 Ms Bakker was appointed to Board as a Non-Executive Director on 5 October 2020.

Audit 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 Ms Bakker (appointed Chair of the Audit Committee on 11 December 2020), Dr Moore and Mr Ryan. Qualifications of Audit and Risk Committee members are provided in the Directors section of this directors' report. Mr Foster retired from the Committee on 11 December 2020.

Audit 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)
WA Foster [1]	1	1
D Bakker [2]	1	1
P Moore	2	2
SG Ryan	2	2

(a) Number of meetings held during period of office
(b) Number of meetings attended
1 Mr Foster retired from the Committee on 11 December 2020.
2 Ms Bakker was appointed to Committee as Chair on 11 December 2020.

Risk, Governance and Sustainability Committee

Names and qualifications of Risk, Governance and Sustainability ("RGS") Committee members

The RGS Committee, which was formed was formed on 11 December 2020, is to include at least 3 members. Current members of the committee are Dr Moore (Chair of the RGS Committee), Mr Ryan and Ms Bakker. Qualifications of RGS Committee members are provided in the Directors section of this directors' report.

RGS Committee meetings

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

	(a)	(b)
P Moore	1	1
D Bakker	1	1
SG Ryan	1	1

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

2021 REMUNERATION IN BRIEF (UNAUDITED)
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021 (“FY21”)

Remuneration of executive key management personnel (“KMP”) in FY21

In arriving at the overall remuneration outcomes for KMP in FY21, the Board have sought to balance and take into account both the wider industry and economic conditions, and the outcomes achieved by management during the year.

More specifically, the Board adopted the following key principles for KMP earnings:

- Earnings were re-weighted, with a greater portion at risk income, and a greater focus on alignment with shareholder interests. As an example, the Managing Director’s remuneration now comprises one third in fixed remuneration and two thirds at risk remuneration (previously half was at risk);
- KMP fixed remuneration was reduced by 10% from FY20 levels;
- Short term incentives now have a performance gate that requires the share price to exceed the energy index before targets can be considered, and (subject to performance) are awarded 50% as cash and 50% as performance rights; and
- Long term share-based incentives are now linked directly to absolute and relative share price performance under the new Performance Rights plan which was approved by shareholders at the 2020 Annual General Meeting.

The performance rights under the short-term and long-term incentives were determined and granted post year-end on 1 July 2021.

A summary of the audited cost to the Company of executive key management personnel (KMP) remuneration is provided on Page 43.

REMUNERATION REPORT (UNAUDITED) (CONTINUED)

FY21 remuneration outcomes at a glance

KMP Fixed Remuneration	Reduction in base salaries.	Total fixed remuneration (TFR) was reduced by 10% for KMP with effect from 1 January 2021 as part of a Board initiative to increase KMP's at-risk remuneration. At risk remuneration also now has a greater link to share price performance and accordingly a greater alignment with shareholder interests.
Short Term Incentive (STI)	Awarded to KMP during the year.	The Board determined the nature of the award on 1 July 2021 which awarded 50% - 51% of the STI entitlement to KMP after the CVN share price exceeded the ASX Energy Index (ASX:XEJ share price performance gate) with key performance targets being achieved. The award comprised a 50% cash component and a 50% equity component. The cash component is included in FY21 remuneration and the equity component comprised performance rights which will only be recognised from the grant date of 1 July 2021.
Long Term Incentive (LTI)	No performance rights vested during the year (namely no value was realised by KMP).	No Performance rights were granted or vested during the year. Performance rights granted and issued subsequent to the year end are subject to the achievement of absolute and relative (to peer group) share price performance conditions in three years' time before they vest.
Non-executive directors	No change to fees.	Fees payable to non-executive directors remain unchanged from FY20 levels. Non-executive directors did not receive any other form of remuneration or incentives.

The statutory disclosures required by the Corporations Act are set out in the remuneration report on pages 33 to 44. These disclosures, particularly the inclusion of accounting values for LTI performance rights awarded but not vested, can vary significantly from the cash value of remuneration realised by senior executives. This is because the Accounting Standards require a value to be placed on a right at the time it is granted to a senior executive and then reported as remuneration even if ultimately the senior executive does not receive any actual value, for example because performance conditions are not met and the rights do not vest.

The following is an unaudited and non-IFRS summary of the cash value of remuneration actually realised by executive KMP for FY21, which the company believes is useful to shareholders, The amounts include cash salary and fees, STI cash awards and superannuation. No share-based payments vested to KMP during the year and therefore no value is included in the table below.

Table 1: Cash value of remuneration realised for executive KMP (unaudited):

Name	Salary $	Super $	STI cash $	Total cash $
A Cook				
Managing Director and Chief Executive Officer	606,288	35,381	124,414	766,083
P Huizenga				
Chief Operating Officer	550,286	34,037	58,283	642,606
T Naude				
Chief Financial Officer	314,125	27,434	33,752	375,311
Total	**1,470,699**	**96,852**	**216,449**	**1,784,000**

REMUNERATION REPORT (AUDITED)
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

This report has been prepared in accordance with section 300A of the Corporations Act 2001 (Cth) (Corporations Act) for the consolidated entity for the financial year ended 30 June 2021. It has been audited as required by section 308(3C) of the Corporations Act and forms part of the Directors' Report.

At the Company's most recent Annual General Meeting at least 25% of the votes cast were against the adoption of the 2020 remuneration report. In response the Board enacted the following actions:

- Earnings were re-weighted, with a greater portion at risk income, and a greater focus on alignment with shareholder interests. As an example, the Managing Director's remuneration now comprises one third in fixed remuneration and two thirds in at risk remuneration (previously half was at risk);
- KMP fixed remuneration was reduced by 10% from FY20 levels;
- Short term incentives now have a performance gate that requires the share price to exceed the energy index before targets can be considered, and (subject to performance) are awarded 50% as cash and 50% as performance rights (effective 1 July 2021); and
- Long term share-based incentives are now (effective 1 July 2021) linked directly to absolute and relative share price performance under the new Performance Rights plan which was approved by shareholders at the 2020 Annual General Meeting.

Key Management Personnel ("KMP")

The Company's KMP are listed in Table 2. They are the Company's non-executive directors (NED) and executive KMP who have authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly.

Table 2: Key management personnel during FY21

Name	Position	Period as KMP during the year
Executive KMP		
A Cook	Managing Director & Chief Executive Officer (CEO)	All of FY21
P Huizenga	Chief Operating Officer	All of FY21
T Naude	Chief Financial Officer	All of FY21
Non-executive Directors		
W Foster	Independent Chairman	All of FY21
P Leonhardt	Independent Chairman (Retired)	1 July 2020 to 11 November 2020
P Moore	Non-executive Director	All of FY21
G Ryan	Non-executive Director	All of FY21
D Bakker	Non-executive Director (Appointed)	5 October 2020 to 30 June 2021

REMUNERATION REPORT (CONTINUED)

Summary of Carnarvon's remuneration policy framework

Carnarvon's vision is to become a major Australian energy provider with expertise and capability that enables the generation of material returns for shareholders over any given medium-term time horizon and outperformance against the ASX Energy Index (ASX:XEJ).

Carnarvon's remuneration framework seeks to focus executives on delivering that purpose:

- Fixed remuneration aligns to market practice and prevailing economic conditions. It seeks to attract, motivate and retain executives focused on delivering Carnarvon's purpose.
- 'At risk' performance-based incentives link to shorter-term and longer-term Company goals. The goals contribute to the achievement of Carnarvon's purpose.
- Short term incentives are considered and awarded against an annual performance 'gate' whereby the company's share price performance must exceed the ASX Energy Index (ASX:XEJ) before performance against any other criteria is considered. If that gate is passed, then incentives are awarded 50% in cash and 50% as performance rights with the total incentives related to the achievement of the STI measures in table 5. This ensures even short-term incentives are judged through the lens of shareholder interests.
- Longer term 'at risk' incentives are also designed to directly align with shareholder objectives and interests. Half of longer-term incentives are based on the Company's share price performance against peers considered to be alternative investments to Carnarvon. The other half is based on the Company's absolute share price appreciation. Both measures are assessed over a three-year period and are entirely share based rewards to executives.

How Carnarvon makes decisions about remuneration

The Board determines Carnarvon's KMP remuneration based on recommendations made to the Board by its Remuneration and Nominations Committee. The Committee is to include at least 3 members who are all non-executive directors.

Members of the Committee during the 30 June 2021 financial year were Mr Ryan (Chairman of Remuneration and Nomination Committee), Mr Foster (retired from the Committee on 11 December 2020), Dr Moore and Ms Bakker (appointed to Committee on 11 December 2020). Qualifications of Remuneration & Nomination Committee members are provided in the Directors section of this directors' report.

The Remuneration and Nomination Committee Charter is available at Carnarvon's website: www.carnarvon.com.au/corporate-governance/. Carnarvon's Managing Director & CEO may attend Committee meetings by invitation in an advisory capacity. Other executives may also attend by invitation. The Committee excludes executives from any discussion about their own remuneration.

Remuneration & Nomination 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	3	3
PS Moore	3	3
WA Foster [1]	1	1
D Bakker [2]	2	2

(a) Number of meetings held during period of office.
(b) Number of meetings attended.
[1] Mr Foster retired from the Committee on 11 December 2020.
[2] Ms Bakker was appointed to Committee on 11 December 2020.

REMUNERATION REPORT (CONTINUED)

External advisers and remuneration advice

Where an adviser is engaged by the company in relation to remuneration matters, the adviser is engaged by and reports to the Board or chair of the Remuneration and Nominations Committee. This protocol ensures any recommendations are free from undue influence by management. The Board or Committee chair deals with the adviser on all material matters. Management involvement is only to the extent necessary to coordinate the work. No external advisors were engaged during FY21.

The Board and Committee seek recommendations from the Managing Director & CEO about executive remuneration. The Managing Director & CEO does not make any recommendation about his own remuneration.

The Board and Committee have regard to industry benchmarking information.

How Carnarvon links performance to incentives

Carnarvon's remuneration policy includes short term (STI) and long-term (LTI) incentive plans. The plans seek to align management performance with shareholder interests.

The STI is an operationally focused target incentive plan which is only considered after the Company's share price achieves a specified performance gate. STI, if awarded, is 50% in cash and 50% in performance rights with a vesting period of 12 months.

The LTI links to an increase in total shareholder return over an extended period and is a share-based incentive through the Company's performance rights plan.

SENIOR EXECUTIVE REMUNERATION STRUCTURE

This section details the remuneration structure for senior executives (Key Management Personnel, or KMP).

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 a full time 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 a full time 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 a full time employee. Termination by the Company is with 3 months notice or payment in lieu thereof. Termination by Mr Naude is with 3 months' notice.

Remuneration mix

Remuneration for KMP is a mix of a fixed cash salary component and an 'at risk' component. The 'at risk' component means that specific targets or conditions must be met before there is any entitlement to receive that component.

REMUNERATION REPORT (CONTINUED)

What is the balance between fixed and 'at risk' remuneration?

The remuneration structure and packages offered to KMP for the period were:

- Fixed remuneration; and
- 'At risk' remuneration comprising:
  - Short term incentive (STI) – an annual cash and (from 1 July 2021) performance rights with a 12 month vesting period, which may be offered at the discretion of the Board, linked to Company and individual performance over a year.
  - Long term incentive (LTI) – from 1 July 2021, performance rights-based incentive, which may be granted annually at the discretion of the Board, linked to the absolute and relative share price performance conditions measured over three years.

The balance between fixed and 'at risk' remuneration depends on the senior executive's role. The CEO has the highest level of 'at risk' remuneration reflecting the greater level of responsibility of this role.

Table 3: Shareholder wealth indicators FY17 – FY21:

	FY17	FY18	FY19	FY20	FY21
Share price at year-end	$0.079	$0.15	$0.60	$0.195	$0.25
Basic earnings/(loss) per share	$(3.62)	$0.14	$(0.64)	$(0.26)	$1.09

Table 4 sets out the relative proportions of the three elements of the executives KMP's total remuneration packages from 1 July 2021.

Table 4: Remuneration mix [1]

	Performance Based Remuneration			
	Fixed Remuneration	STI	LTI	Total 'at risk'
Position	%	%	%	%
CEO	34	33	33	66
Other KMP	50	25	25	50

1 The remuneration mix assumes maximum 'at risk' awards. Percentages shown later in this report reflect the actual incentives paid as a percentage of total fixed remuneration, movements in leave balances and other benefits and share based payments calculated using the relevant accounting standards.

Fixed remuneration

What is fixed remuneration?	Senior executives are entitled to a fixed cash remuneration amount inclusive of the guaranteed superannuation contribution. The amount is not based upon performance. Senior executives may decide to salary sacrifice part of their fixed remuneration for additional superannuation contributions and other benefits.
How is fixed remuneration reviewed?	Fixed remuneration is determined by the Board based on external review and advice that takes account of the role and responsibility of each senior executive. It is reviewed annually against industry benchmarking information.

REMUNERATION REPORT (CONTINUED)

Fixed remuneration for the year

Total fixed remuneration (TFR) of KMP is provided in Table 1 on Page 43. Page 43 reports on the remuneration for KMP as required under the Corporations Act.

Short Term Incentive (STI)

What is the STI?

The STI is part of ‘at risk’ remuneration offered to senior executives. It measures individual and Company performance over a 12-month period. The period coincides with Carnarvon’s financial year. It is paid as 50% in cash and, from 1 July 2021, 50% in performance rights and is offered to senior executives at the discretion of the Board based on company performance and performance against objectives.

How does the STI link

The STI is an at-risk opportunity for senior executives and is subject to the achievement of the performance threshold (see below), it rewards senior executives for meeting or exceeding key performance indicators. The key performance indicators link to Carnarvon’s key purpose and goals set for KMP during the reporting period. The STI aims to motivate senior executives to meet Company expectations for success. Carnarvon can only achieve its purpose if it attracts and retains high performing senior executives.

What are the performance conditions or KPIs?

Carnarvon’s key performance indicators (KPIs) are set by the Board for each 12-month period beginning at the start of a financial year. They reflect Carnarvon’s financial and operational goals that are essential to it achieving its purpose. Senior executives also have individual KPIs to reflect their particular responsibilities. For the reporting period, the performance measures comprised:

STI Measures	Weighting
Company KPI’s	**80%**
Buffalo project farm out	20%
Buffalo drilling commitment	10%
Dorado development progressed	10%
Dorado development FPSO	10%
Dorado development financing	10%
Bedout exploration drilling	10%
CVN exploration permit farm out	5%
Other KPI’s, eg growth, strategy, people, governance & environment	5%
Individual KPI’s	**20%**

Refer to Table 5 for more information.

Different performance levels for KMPs

Individual KPIs link to Carnarvon’s strategy and strategic plan. Individual KPIs relate to areas where senior executives are able to influence or control outcomes. KPIs may include: development of project specific plans to align with Carnarvon’s strategy; specific commercial or corporate milestones; funding capacity; improvements in systems to achieve efficiencies; people measures; or specific safety and environmental and sustainability targets.

The Board sets KPI measures for KMPs. A participant must achieve the threshold level to entitle them to any payment for an individual KPI.

REMUNERATION REPORT (CONTINUED)

The value of the STI awards to individual KMPs

Incentive payments are based on a percentage of a senior executive's fixed remuneration. The CEO can earn up to a maximum of 100% of his fixed remuneration. The value of the award that can be earned by other KMP is up to a maximum of 50% of their fixed remuneration.

Assessment of performance conditions

The Board assesses the extent to which KPIs were met for the period after the close of the relevant financial year. The Board assesses the achievement of the KPIs for the CEO. The Board assesses the performance of other KMPs on the CEOs recommendation.

Assessment of threshold level of performance before an STI is paid

To align with shareholder interests, at the end of Carnarvon's financial year there is a calculation of the share price performance against the ASX Energy Index (ASX:AEJ). Carnarvon's share price performance must exceed the ASX Energy Index in order for the Board to then consider the outcomes for the CEO and other KMP against each of the KPI measures.

What happens if an STI is awarded

On achievement of the relevant KPIs Carnarvon will pay STI awards as to 50% in cash and 50% in performance rights with a vesting period of 12 months. Carnarvon includes the cash and nominal value of any performance rights STI awards in its financial statements for the relevant financial year.

STI PERFORMANCE FOR THE YEAR

At the completion of the financial year, the board tested each senior executive's performance against the STI performance conditions set for the year after exercising its discretion in relation to the hurdle measures.

The first test is a 'gate' in relation to the Company's share price performance compared with the return of the ASX Energy Index. If Carnarvon's share price does not exceed the performance of the Index within the period, no STI will be awarded, regardless of whether other targets have been met.

The change in Carnarvon's share price over the financial year exceeded the change in the ASX Energy Index, and accordingly the board tested each senior executive's performance against the STI performance conditions set for the year.

Carnarvon share price (ASX:CVN) at 1 July 2020	19.5 cents per share
Carnarvon share price (ASX:CVN) at 30 June 2021	25 cents per share
Change in share price over the period	28.2%
ASX Energy Index (ASX:XEJ) at 1 July 2020	7,528
ASX Energy Index (ASX:XEJ) at 30 June 2021	8,051
Change in ASX Energy Index over the period	6.9%

The percentage of the maximum STI that will be awarded or forfeited for the period for each executive KMP, determined on 1 July 2021, was as follows (awarded/ forfeited):

KMP	STI Awarded	STI Forfeited
Adrian Cook	50%	50%
Mr Huizenga	51%	49%
Mr Naude	50.5%	49.5%

REMUNERATION REPORT (CONTINUED)

The STI awards made reflect Carnarvon's performance for FY21, with outcomes of the Company related performance conditions that make up a fixed percentage of the STI KPIs provided in Table 5.

Table 5: Outcome of FY21 STI Company KPIs:

STI Measure	STI KPI	STI Performance and score
Buffalo project farm out	Secure funding support for >50% of the Buffalo-10 well by 30 June 2021	Farm out agreement executed in December 2020 and funding confirmed for 100% of the well in March 2021. **Score: KPI achieved**
Buffalo drilling commitment	a). Secure drilling rig for Buffalo-10 well with well cost estimate <US$20m	Well cost estimate >US$20m. **Score: KPI not achieved**
	b). by 30 June 2021	Drilling rig for Buffalo-10 secured by 30 June 2021. **Score: KPI achieved**
Dorado development progressed	Commence FEED by 30 September, 2020	**Score: KPI not achieved**
Dorado development FPSO	Lease contract principles agreed by 30 September, 2020	**Score: KPI not achieved**
Dorado development financing	Secure strategic portion of non-debt financing by 30 June 2021	**Score: KPI not achieved**
Bedout exploration drilling	Secure drilling rig by 31 March, 2021 for drilling Pavo or Apus	Drilling rig secured. **Score: KPI achieved**
CVN exploration permit farm out	Farm out permit interest(s) by 30 June, 2021 to cover CVN share of exploration costs >$10 million	**Score: KPI not achieved**
Other KPI's, eg growth, strategy, people, governance & environment	Build ESG policies by 30 June, 2021 that enable CVN to operate Buffalo and other drilling and production facilities.	Policies delivered and appropriate frameworks constructed and implemented for the drilling operations in Buffalo. **Score: KPI achieved**

STI performance rights issued in FY21

There were no STI performance rights awarded or in operation during the year. KMP were granted a total of 403,110 STI performance rights on 1 July 2021 on the basis outlined in the tables above.

REMUNERATION REPORT (CONTINUED)

LONG TERM INCENTIVE (LTI)

What is the LTI?	The LTI is an equity based 'at risk' incentive plan which operates through a performance rights scheme approved by Carnarvon shareholders. The LTI aims to reward results that promote long term growth in shareholder value or total shareholder return (TSR). Carnarvon offers LTIs to senior executives at the discretion of the Board and offers to KMP as outlined in table 4.
How does the LTI link to Carnarvon's key purpose?	The LTI links to Carnarvon's key purpose by aligning the longer term 'at risk' incentive rewards with outcomes that match shareholder objectives and interests by: • benchmarking shareholder returns against a group of companies considered alternative investments to Carnarvon and against absolute target returns • giving share based rather than cash-based rewards to executives. This links their own rewards to shareholder expectations of company performance, especially share price growth.
How are the number of rights issued to senior executives calculated?	The award of performance rights is at the absolute discretion of the Board. The number of performance rights granted to the executives under the LTI is calculated as fixed remuneration at 30 June of the Financial Year multiplied by the relevant percentage (2021: CEO: 100%, other KMP: 50%) divided by the market value. The Market Value is the market value of a fully paid ordinary share in the Company, calculated using a five day VWAP, up to and including the date the performance rights are granted.
What equity based grants are given and are there plan limits?	Carnarvon grants performance rights using the formula set out above. If the performance conditions are met, senior executives have the opportunity to acquire one Carnarvon share for every vested performance right. There are no plan limits as a whole for the LTI due to the style of the plan.
What are the performance conditions?	The two performance conditions used by Carnarvon are based on Total Shareholder Return (TSR) (1) in absolute terms and (2) relative to the returns of a group of companies considered alternative investments to Carnarvon. The vesting schedule of 50% of the performance rights granted in July 2021 will be subject to relative TSR testing is as follows:

Relative TSR Performance	Level of vesting
Less than 50th percentile	Zero
Between 50th and 75th percentile	Pro rata between 50% and 100%
75th percentile or better	100%

Peer Group: 88 Energy, Buru Energy, Central Petroleum, Cooper Energy, Elixir Energy, Empire Energy, Galilee Energy, Helios Energy, Horizon Oil, Karoon Energy, Senex Energy, Strike Energy, Warrego Energy.

The vesting schedule of 50% of the performance rights granted in July 2021 will be subject to absolute TSR testing is as follows:

Absolute TSR Performance	% of performance rights that will vest
10% per annum return	33%
Between 10% and 20% per annum	Pro rata between 33% and 100%
Above 20% per annum	100%

REMUNERATION REPORT (CONTINUED)

Why choose these Performance conditions?	Relative TSR is an appropriate performance hurdle because it ensures a proportion of each participants remuneration in linked to the return received by shareholders from holding shares in a company in the peer group for the same period. Absolute TSR is an appropriate performance hurdle because it ensures KMP performance is rewarded when a year-on-year improvement in shareholder value is achieved.
What happens to LTI performance rights on a change of control?	The Board reserves the discretion for early vesting in the event of a change of control of the Company. Adjustments to a participant's entitlements may also occur in the event of a company reconstruction and certain share issues.

LTI equity awards issued or in operation during the year.
There were no LTI performance rights awarded or in operation during the year. KMP were granted 1,586,560 performance rights on 1 July 2021 on the basis outlined in the tables above.

REMUNERATION POLICY FOR NON-EXECUTIVE DIRECTORS:

The fees paid to non-executive directors are determined using the following principles. Fees are:

- not incentive or performance based, but are fixed amounts;
- determined by reference to the nature of the role, responsibility and time commitment required for the performance of the role including membership of board committees;
- are benchmarked against industry peers on an annual basis; and
- driven by a need to attract and retain a diverse and well-balanced group of individuals with relevant experience and knowledge

Following a benchmarking analysis against Carnarvon's peers, the board made no change to its fee structure or quantum in the current year. The benchmarking analysis was conducted by comparing Carnarvon non-executive director fees to those of a peer group comprising

ASX-listed companies of similar size in both the resources and oil and gas sectors. Following the review, the Chair's fee remains at $150,000 per annum and the base board fee $100,000 per annum to ensure Carnarvon will be able to attract and retain quality board candidates.

The board added a Risk, Governance and Sustainability ("RGS") Committee to the board structure to reflect the changing nature of the company's operations and the increased need to focus on environmental, social, governance and stakeholder expectations. This brings the total of board committees to three, each chaired by a non-executive director. Committee chairs are paid an additional fee of $5,000 to reflect the workload required of them in fulfilling those roles. No additional fees are payable to any director for membership of board committees.

REMUNERATION REPORT (CONTINUED)

Directors are not paid superannuation contributions by the Company.

Non-executive directors are entitled to be reimbursed at cost for their reasonable expenses incurred in the performance of their directors' duties.

At $472,812, the aggregate remuneration of Carnarvon non-executive directors remains well below the annual limit of $600,000 approved by shareholders at the 2018 Annual General Meeting.

Details of the fees payable to non-executive directors for Board and committee membership for FY21 are set out in Table 6.

Table 6: FY21 non-executive directors' fees and board committee fees per annum:

Board		Board Committees					
Chair $	Member $	Chair Audit $	Member Audit $	Chair Remuneration and Nomination $	Member Remuneration and Nomination $	Chair RGS $	Member RGS $
150,000	100,000	5,000	-	5,000	-	5,000	-

REMUNERATION INITIAIVES DURING THE YEAR

Review of Senior Executive Remuneration

The directors reviewed the remuneration of KMP in late 2020 taking into consideration Carnarvon's positioning against its industry peers, the wider effects of the COVID-19 situation in the broader community, the position of resources companies in the broader market, realignment of staff priorities arising from changes in the company's strategy and operations, and the introduction of the new performance rights scheme mandated by shareholders at the 2020 Annual General Meeting.

As a result, KMP remuneration was adjusted to reduce the amount of the fixed component by ten percent and more closely align the variable elements to company and performance and positive shareholder outcomes. The board will continue to monitor and adjust alignment of KMP to strategic and operational objectives as required through 2022 and beyond.

Staff structure and remuneration

Changes were made to the staffing of Carnarvon's operations during 2021 to reflect the changes in the strategic and operational focus of the business as we progress the Buffalo project, focus on unlocking value from the company's position in Dorado and progress the renewable diesel project. The board is supporting management through the process to ensure that the company's remuneration levels and structures remain fit for purpose and aligned with the current market.

REMUNERATION REPORT (CONTINUED)

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

	Short term benefits				Post-Employment	Share-based payments		Long term benefits			
Name	Salary and fees ($)	Annual leave ($)[6]	Short term cash bonus ($)	Other ($)	Superannuation contributions ($)	Shares/ Options ($)	Performance Rights ($)[7,8]	Long service leave ($)[6]	Total ($)	Total at risk %	Total issued in equity %
Directors											
Non-Executive											
Mr WA Foster[1] (Chairman)											
2021	$133,905	-	-	-	-	-	-	-	$133,905	-	-
2020	$97,848	-	-	-	-	-	-	-	$97,848	-	-
Mr SG Ryan[2]											
2021	$105,000	-	-	-	-	-	-	-	$105,000	-	-
2020	$94,009		-	-	-	-	-	-	$94,009	-	-
Mrs D Baker[3]											
2021	$76,694	-	-	-	-	-	-	-	$76,694	-	-
2020	$0	-	-	-	-	-	-	-	$0	-	-
Dr P Moore[4]											
2021	$102,500	-	-	-	-	-	-	-	$102,500	-	-
2020	$90,170	-	-	-	-	-	-	-	$90,170	-	-
Mr PJ Leonhardt (Retired)[5]											
2021	$54,713	-	-	-	-	-	-	-	$54,713	-	-
2020	$136,594	-	-	-	-	-	-	-	$136,594	-	-
Executive											
Mr AC Cook (Chief Executive Officer)											
2021	$606,288	-$8,400	$124,414	-	$35,381	-	-	-$11,643	$746,040	16.7%	-
2020	$642,120	$11,412	-	-	$14,380	$287,459	-	$20,807	$976,178	29.4%	29.4%
Executives											
Mr PP Huizenga (Chief Operating Officer)											
2021	$550,286	-$3,215	$58,283	-	$34,037	-	-	-$1,040	$638,351	9.1%	-
2020	$583,389	$27,334	-		$13,209	-	-	$9,033	$632,965	-	-
Mr TO Naude (Chief Financial Officer)											
2021	$314,125	-$3,071	$33,752	-	$27,434	-	-	-$6,255	$365,984	9.2%	-
2020	$324,757	313	-	-	$12,323	-	-	$16,706	$354,099	-	-
Total compensation: KMP											
2021	$1,943,511	-$14,686	$216,448	-	$96,852	-	-	-$18,938	$2,223,186	9.7%	-
2020	$1,968,887	$39,059	-	-	$39,912	$287,459	-	$46,546	$2,381,863	12.1%	12.1%

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. Mr Foster was appointed as Chairman on 11 November 2020.
2. Mr Ryan was appointed as Chair of the Remuneration and Nomination Committee on 12 April 2019.
3. Ms Bakker was appointed as a non-executive director on 5 October 2020. Ms Bakker was appointed Chair of the Audit committee on 11 December 2020.
4. Dr Moore was appointed as Chair of the Risk, Governance and Sustainability Committee on 11 December 2020.
5. Mr Leonhardt retired as a non-executive director and chairman on 11 November 2020.
6. These amounts represent the movements in the relevant leave entitlements provisions during the year.
7. There were no STI performance rights granted during the year, subsequent to year-end 403,110 STI performance rights were granted to KMP.
8. There were no LTI performance rights granted during the year, subsequent to year-end 1,586,560 LTI performance rights were granted to KMP.

REMUNERATION REPORT (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:

2021	Held at 1 July 2020	Net acquired/ (sold) on market	Award under Employee Share Plan	Received on exercise of options	Held at 30 June 2021
Directors					
PJ Leonhardt	17,750,000	-	-	-	17,750,000 [1]
WA Foster	925,938	-	-	500,000	1,425,938
AC Cook	15,938,797	-	-	-	15,938,797
P Moore	464,232	-	-	500,000	964,232
SG Ryan	267,701	37,520	-	-	305,221
D Bakker	-	304,774	-	-	304,774
Executives					
PP Huizenga	12,076,196	-	-	-	12,076,196
TO Naude	4,074,357	-	-	-	4,074,357

[1] This balance reflects the shares held by PJ Leonhardt on the date he retired as Director of 11 November 2020.

Plan shares held by key management personnel

Included in the above table are plan shares held by key management personnel held under the previous ESP loan scheme which are accounted for as in substance options. 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:

2021	Held at 1 July 2020	Granted as compensation	Employee Share Plan cancellations	Exercised	Held at 30 June 2021
Directors					
PJ Leonhardt	3,000,000	-	-	3,000,000	-
WA Foster	-	-	-	-	-
AC Cook	12,945,592	-	-	-	12,945,592
P Moore	-	-	-	-	-
SG Ryan	-	-	-	-	-
Executives					
PP Huizenga	11,976,196	-	-	-	11,976,196
TO Naude	3,992,512	-	-	-	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:

2021	Held at 1 July 2020	Granted as compensation	Acquired/(sold)	Exercised	Held at 30 June 2021
Directors					
WA Foster	500,000	-	-	500,000 [1]	-
P Moore	500,000	-	-	500,000 [1]	-

[1] The options were exercised at the exercise price of $0.15 each.

End of Remuneration Report

DIRECTORS' REPORT

Non-audit services

The auditors have not performed any non-audit services over and above their statutory duties during the current reporting period.

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
WA Foster	1,425,938	-
AC Cook	15,938,797	-
P Moore	964,232	-
SG Ryan	305,221	-
D Bakker	304,774	

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 ended 30 June 2021, women made up 20% of the Board and 29% of the Company's general work force.

The Board has set the following measurable diversity objectives for the 2021 financial year:

2021 Measurable objectives	Progress
Aim to have not less than 30% of the directors of each gender.	Female Board representation in 2021 was 20% (2020: 0%).
Dedicated mentoring program for the female employees of the Company	The Company provided ongoing training, mentoring and professional support in the development of all employees' careers.
Maintain flexible work practices	The Company continued to maintain its flexible work practices which includes a parental leave policy and provides employees the ability to maintain flexible hours and to work from home where required.

Likely developments

The likely developments for the 2021 financial year are contained in the operating and financial review as set out on pages 6 to 25.

Environmental regulation and performance

The Group's oil and gas exploration and development activities are concentrated in offshore Western Australia. Environmental obligations are regulated under both State and Commonwealth law in Western Australia, depending on whether a permit sits in State or Commonwealth waters. The Group is not aware of any significant environmental breaches during the year ended 30 June 2021.

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 (2020: Nil).

Auditor's independence declaration

The auditor's Independence Declaration under Section 307C of the Corporations Act is set out on page 48 and forms part of the directors' report for the financial year ended 30 June 2021.

Principal activities

During the course of the 2021 financial year the Group's principal activities continued to be directed towards oil and gas exploration, development and production.

DIRECTORS' REPORT

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 6 to 25.

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 2021 is set out on pages 6 to 25 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

1). On 1 July 2021, the Company granted 3,119,670 performance rights to executives and other employees under the company's performance rights plan.
2). On 6 July 2021, the company formed a joint venture with Frontier Impact Group to produce renewable diesel and other sustainable products.
3). On 14 July 2021, the Company was granted Petroleum Exploration Permits EP 509 & TP/29 in the North West Shelf, offshore Western Australia.
4). On 23 August 2021, the Front End Engineering and Design contract for the Floating Platform, Storage and Offloading facility for the Dorado project in WA-437-P was awarded to Altera Infrastructure Production AS.
5). On 26 August, the contract for the design, construction and installation of the Well Head Platform, for the Dorado project in WA-437-P, was awarded to Sapura Energy.

Other than above, there is no other matters or circumstance has arisen since 30 June 2021 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.

William A Foster
Chairman

Perth, 30 August 2021

AUDITOR'S INDEPENDENCE DECLARATION

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 2021, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst + Young

Ernst & Young

T S Hammond
Partner
30 August 2021

TH:AJ:CVN:007

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 fourth edition of the Corporate Governance Principles and Recommendations which was released by the ASX Corporate Governance Council in February 2019 and became effective for financial years commencing on or after 1 January 2020.

The Group's Corporate Governance Statement for the financial year ending 30 June 2021 is dated as at 30 June 2021 and was approved by the Board on 30 August 2021. The Corporate Governance Statement is available on Carnarvon Petroleum's website at carnarvon.com.au/about-us/corporate-governance/.

CONSOLIDATED INCOME STATEMENT AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2021

		Consolidated	
	Notes	2021 $000	2020 $000
Interest income	2	492	1,545
Movement in fair value of financial assets	9	302	408
Gain on loss of control of subsidiary	3	23,635	-
Administrative expenses		(2,429)	(2,611)
Directors' fees		(473)	(419)
Employee benefits expense	21(a)	(1,021)	(1,340)
New venture and advisory costs		(2,049)	(1,393)
Foreign exchange (loss) / gain		(1,244)	847
Exploration expenditure written off	13	-	(1,174)
Share of loss of Joint venture		(77)	-
Gain/ (loss) before income tax		17,136	(4,137)
Taxes			
Current income tax expense	7(a)	-	-
Gain/ (loss) for the year		17,136	(4,137)
Other comprehensive income			
Other Comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):			
Exchange differences arising on translation of foreign operations		126	-
Total comprehensive income for the year		17,262	(4,137)
Total comprehensive income for the period attributable to members of the entity		17,262	(4,137)
Earnings per share:			
Basic earnings / (loss) per share (cents per share)	6	1.09	(0.26)
Diluted earnings / (loss) per share (cents per share)	6	1.09	(0.26)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Notes	Consolidated 2021 $000	Consolidated 2020 $000
Current assets			
Cash and cash equivalents	18(b)	98,436	113,632
Other receivables	8	351	281
Other assets	11	728	814
Total current assets		99,515	114,727
Non-current assets			
Property, plant and equipment	10	128	62
Other financial assets	9	1,339	1,037
Exploration and evaluation expenditure	13	129,500	122,622
Right-of-use assets	12	593	796
Investment in Joint Venture	15	26,199	-
Total non-current assets		157,759	124,517
Total assets		257,274	239,244
Current liabilities			
Trade and other payables	16	1,310	947
Employee benefits	21(b)	604	649
Lease liabilities	12	203	186
Total current liabilities		2,117	1,782
Non-current liabilities			
Employee benefits	21(b)	202	160
Lease liabilities	12	441	644
Total non-current liabilities		643	804
Total liabilities		2,760	2,586
Net assets		254,514	236,658
Equity			
Contributed equity	17	246,268	245,856
Reserves	17	(378)	(686)
Accumulated profit / (losses)		8,624	(8,512)
Total equity		254,514	236,658

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 2021

	Issued capital $000	Reserve shares $000	Accumulated profit / (losses) $000	Translation reserve $000	Fair value reserve $000	Share based payments reserve $000	Total $000
Balance at 1 July 2019	166,081	(6,780)	(4,375)	26	-	6,820	161,772
Comprehensive loss							
Loss for the year	-	-	(4,137)	-	-	-	(4,137)
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive loss for the year	-	-	(4,137)	-	-	-	(4,137)
Transactions with owners and other transfers							
Share based payments	-	-	-	-	-	288	288
Proceeds from capital raise	78,671	-	-	-	-	-	78,671
Exercise of ESP shares	31	33	-	-	-	-	64
Issue of ESP shares	1,073	(1,073)	-	-	-	-	-
Total transactions with owners and other transfers	79,775	(1,040)	-	-	-	288	79,023
Balance at 30 June 2020	245,856	(7,820)	(8,512)	26	-	7,108	236,658
Balance at 1 July 2020	245,856	(7,820)	(8,512)	26	-	7,108	236,658
Comprehensive Income							
Profit for the year	-	-	17,136	-	-	-	17,136
Other comprehensive income	-	-	-	126	-	-	126
Total comprehensive income for the year	-	-	17,136	126	-	-	17,262
Transactions with owners and other transfers							
Exercise of options	150	-	-	-	-	-	150
Exercise of ESP shares	262	182	-	-	-	-	444
Total transactions with owners and other transfers	412	182	-	-	-	-	594
Balance at 30 June 2021	246,268	(7,638)	8,624	152	-	7,108	254,514

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 2021

	Notes	Consolidated 2021 $000	Consolidated 2020 $000
Cash flows from operating activities			
Payments to suppliers and employees		(5,349)	(6,212)
Interest received		492	1,545
Net cash used in operating activities	18(a)	(4,857)	(4,667)
Cash flows from investing activities			
Exploration and development expenditure		(9,413)	(37,197)
Research and development refundable tax offset		286	1,089
Insurance refund received		-	1,180
Acquisition of property, plant and equipment	10	(120)	(47)
Additional investment in joint venture		(196)	-
Cash derecognised on loss of control of subsidiary		(30)	-
Net cash used in investing activities		(9,473)	(34,975)
Cash flows from financing activities			
Proceeds from capital raise		-	78,671
Proceeds from exercise of Employee Share Plan		445	64
Proceeds from exercise of options		150	-
Payment of principal portion of lease	12	(217)	(209)
Net cash provided by financing activities		378	78,526
Net increase in cash and cash equivalents held		(13,952)	38,884
Cash and cash equivalents at the beginning of the financial year		113,632	73,900
Effect of exchange rate fluctuations on cash and cash equivalents		(1,244)	848
Cash and cash equivalents at the end of the financial year	18(b)	98,436	113,632

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

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

The consolidated financial report of Carnarvon Petroleum Limited ('Company') for the financial year ended 30 June 2021 comprises the Company and its controlled entities (the "Group").

Carnarvon Petroleum Limited is a for profit oil and gas exploration and production company limited by shares incorporated in Australia at the registered office of Level 2, 76 Kings Park Road, West Perth, Western Australia, whose shares are publicly traded on the Australian Stock Exchange.

The financial report was authorised for issue by the directors on 30 August 2021.

The basis for the preparation of the following notes can be found in note 31 and the significant accounting policies used in the preparation can be found in note 32.

2. INTEREST INCOME

	Consolidated	
	2021 $000	2020 $000
Interest revenue	492	1,545
	492	1,545

3. GAIN ON LOSS OF CONTROL OF SUBSIDIARY

In the prior year, the Group held a 100% interest in Carnarvon Petroleum Timor Unip Lda (CPT) and the Group had historically consolidated CPT into financial statements as a fully owned subsidiary. On 19 April 2021, the Group has divested 50% interest in CPT which resulted in a loss of control of subsidiary due to the infusion into CPT of US$20 million by a third party. The Group has accounted for the remaining 50% interest as a joint venture due to the existence of joint control at the date of disposal.

This transaction has resulted in the recognition of a gain on loss of control of subsidiary, calculated as follows:

	2021 $000
Loan to joint venture	-
Retained Interest in joint venture	25,798
Derecognition of net assets of CPT	(2,163)
Gain on loss of control of subsidiary	23,635

Derecognition of net assets of CPT

	2021 $000
Assets:	
Cash at bank	(30)
Exploration and evaluation assets	(2,172)
Property, plant and equipment	(1)
	(2,203)
Liabilities:	
Other payables	40
Derecognition of net assets	(2,163)

NOTES TO THE FINANCIAL STATEMENTS

3. GAIN OR LOSS OF CONTROL OF SUBSIDIARY (CONTINUED)

The loan to the joint venture amounting to $3,221,000 was determined to have a fair value of nil as it is only repayable out of the after-tax profits of CPT noting that the Buffalo project is at an early stage of exploration and evaluation.

The fair value of the retained investment in joint venture as of 19 April 2021 was determined using the adjusted net asset approach (level 3 in fair value hierarchy) wherein the assets of Carnarvon Petroleum Timor Unipessoal LDA were mainly cash and the exploration and evaluation expenditure assets and measured at fair value.

4. OTHER EXPENSES

	Consolidated	
	2021 $000	2020 $000
The following expenses are included in administrative and employee benefit expenses in the consolidated income statement:		
Depreciation – property, plant and equipment	(53)	(29)
Depreciation – leases	(203)	(203)
Defined contribution – superannuation expense	(318)	(223)

5. AUDITORS' REMUNERATION

As a result of work in relation to and required for the 30 June 2021 period, the auditor of the Group, Ernst & Young, has charged the following fees:

	2021 $	2020 $
Fees to Ernst & Young Australia:		
Fees for auditing statutory financial report of the parent covering the group and auditing the statutory financial report of any controlled entities	(67,600)	(67,451)

6. EARNINGS/(LOSS) PER SHARE

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

	2021	2020
	Number of shares	
Issued ordinary shares at 1 July	1,564,379,917	1,350,824,248
Shares issued during the period	1,000,000	212,130,000
Weighted average number of ordinary shares 30 June (basic)	1,565,127,862	1,562,954,248
Weighted average number of ordinary shares 30 June (diluted)	1,565,127,862	1,562,954,248

	2021 $	2020 $
Earnings/(Loss) used in calculating basic and diluted loss per share	17,136,000	(4,317,000)

As at 30 June 2021, the Group has 52,504,005 reserve shares on issue under the employee share plan (refer Note 17). Based on the weighted average exercise price of these reserve shares, they are considered to be anti-dilutive and therefore have not impacted the calculation of diluted earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

7. TAXES

	Consolidated	
	2021 $000	2020 $000
(a) Income tax expense		
Current Income tax expense		
Current Income tax (benefit) / expense	-	-
Adjustment for prior period	236	445
	236	445
Deferred tax (income)		
Origination and Reversal of temporary differences – current		
Adjustment for prior period	(236)	(445)
	(236)	(445)
Total income tax (benefit) / expense	-	-
Numerical reconciliation between pre-tax profit and income tax expense:		
Profit/(Loss) for the period	17,136	(4,137)
Income tax using the statutory rate of 30% (2020: 27.5%)	5,141	(1,138)
Non-deductible expenditure	-	275
Non-assessable gain on loss of control	(7,090)	
Share based payment expense	-	79
Entertainment	3	3
Effect of foreign tax jurisdiction	-	(13)
Revaluation of investments on capital account	(91)	(112)
Current year tax benefit not brought to account	2,037	906
	-	-
Under(over) provision in prior years	-	-
Income tax (benefit) / expense	-	-

7. TAXES (CONTINUED)

	Consolidated 2021 $000	Consolidated 2020 $000
(b) Current tax liability	-	-

The current tax liability of nil (2020: nil) represents the amount of income tax payable in respect of current and prior financial periods.

Tax Consolidation

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

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

(c) Deferred tax assets and liabilities

	2021 $000	2020 $000
Deferred tax liabilities		
Capitalised exploration deducted immediately	38,850	33,350
Unrealised foreign exchange gains	-	196
Gross deferred tax liabilities	38,850	33,546

	2021 $000	2020 $000
Deferred tax assets		
Carry forward revenue tax losses	49,068	45,950
Unrealised foreign exchange loss	374	-
Property, plant and equipment	94	130
Share issue costs	160	238
Provisions	242	222
Accruals	27	23
Lease liability and right-of-use-assets	15	9
Gross deferred tax assets	49,980	46,572
Set-off of deferred tax liabilities pursuant to set-off provisions	(38,850)	(33,546)
Unrecognised deferred tax asset	(11,130)	(13,026)
Net deferred tax assets	-	-

NOTES TO THE FINANCIAL STATEMENTS

7. TAXES (CONTINUED)

(d) Partially unrecognised tax losses and PRRT credits (not tax effected)

	2021 $000	2020 $000
Total Australian tax losses	163,560	167,091
Unaugmented PRRT losses	151,242	135,884

The Company has disclosed deferred tax disclosures for the 2021 year at the Australian income tax rate of 30% (PY 27.5%), as it does not qualify for the base rate entity company tax rate of 27.5%.

8. OTHER RECEIVABLES

	Consolidated	
	2021 $000	2020 $000
Current		
Other receivables	133	63
Cash held as security	218	218
	351	281

The Group's exposure to credit and currency risks is disclosed in Note 27.

9. OTHER FINANCIAL ASSETS

	2021 $000	2020 $000
Financial assets at FVTPL	1,339	1,037

Reconciliation

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

	2021 $000	2020 $000
Carrying value at the beginning of period	1,037	629
Fair value movements	302	408
Carrying value at the end of period	1,339	1,037

On 6 September 2017, CWX Global Limited (formerly Loyz Energy Limited) ("CWX") issued 331,653,000 shares to Carnarvon. The shares were received as settlement for a deferred consideration asset relating to the sale of Carnarvon's share in oil producing Concessions in Thailand to CWX in 2014. As part of the settlement, Carnarvon is also entitled to 12% of any sale proceeds over US$45m, should CWX sell the Concessions.

The shares in CWX held by Carnarvon at 30 June 2021 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 using the share price of CWX as at 30 June 2021.

NOTES TO THE FINANCIAL STATEMENTS

10. PROPERTY, PLANT AND EQUIPMENT

	Consolidated	
	2021 $000	2020 $000
Fixtures and fittings		
Cost:		
Balance at beginning of financial year	610	563
Additions	119	47
Disposals	-	-
Balance at end of financial year	729	610
Depreciation and impairment losses:		
Balance at beginning of financial year	548	519
Additions	-	-
Disposals	-	-
Depreciation charge for year	53	29
Balance at end of financial year	601	548
Carrying amount opening	62	44
Carrying amount closing	128	62

11. OTHER ASSETS

	Consolidated	
	2021 $000	2020 $000
Current		
Deposits and prepayments	728	814

NOTES TO THE FINANCIAL STATEMENTS

12. RIGHTS-OF-USE ASSETS AND LEASE LIABILITIES

The Group has leases which predominantly relate to office premise and office car bays. Amounts recognised in the statement of financial position and the carrying amounts of the Group's right-of-use assets and lease liabilities and the movement during the period are as follows:

Rights-of- use asset	Consolidated	
	2021 $000	2020 $000
Balance at beginning of financial year	796	999
Additions	-	-
Depreciation expense	(203)	(203)
Balance at end of financial year	593	796

Lease liabilities	Consolidated	
	2021 $000	2020 $000
Balance at beginning of financial year	830	999
Additions	-	-
Interest expense	31	40
Lease payments	(217)	(209)
Balance at end of financial year	644	830
Current lease	203	186
Non-current lease	441	644
Balance at end of financial year	644	830

The following are the amounts recognised in profit or loss:	Consolidated	
	2021 $000	2020 $000
Depreciation – leases	(203)	(203)
Interest expense - leases	(31)	(40)

NOTES TO THE FINANCIAL STATEMENTS

13. EXPLORATION AND EVALUATION EXPENDITURE

	Consolidated	
	2021 $000	2020 $000
Cost:		
Balance at beginning of financial year	122,622	88,869
Additions	9,335	37,196
Derecognition on loss of control of subsidiary (Note 15)	(2,171)	-
Well control insurance refund	-	(1,180)
R&D refundable tax offset	(286)	(1,089)
Exploration expenditure written off	-	(1,174)
Balance at end of financial year	129,500	122,622

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

The Company performed an assessment during the period on whether the changes in business conditions due to COVID-19 has impacted the carrying value of Exploration and Evaluation Expenditure assets. The Company has assessed that there has been no impact to the carrying value of these assets.

14. JOINT OPERATIONS

The Group has the following interests in joint operations:

Joint operation	Principal activities	Ownership interest %	
Western Australia		**2021**	**2020**
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	100%	70%

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.

With respect to the WA-155-P permit, Carnarvon completed an agreement with Skye Exploration Pty Ltd in April 2020 which increased Carnarvon's interest in the permit and secured operatorship of the permit for Carnarvon.

Carnarvon has accounted for its interest in the above Concessions as Joint Operations as the company has joint control. Joint control is derived from the voting rights assigned by the Joint Operating Agreements for each permit.

NOTES TO THE FINANCIAL STATEMENTS

15. INTEREST IN JOINT VENTURE

On 19 April 2021, Carnarvon divested 50% of its interest in Carnarvon Petroleum Timor Unipessoal LDA (CPT) an entity domiciled in Dili, Timor-Leste which holds the interest in the Buffalo project (TL-SO-T 19-14 PSC).

Following the divestment, CPT is jointly controlled and the Group holds a 50% interest in CPT. Based on the contractual arrangements of the newly formed incorporated joint arrangement, the Group reassessed its accounting treatment of its interest in CPT. It was determined that the Group's interest in CPT is to be accounted for as a joint venture as per AASB 11: *Joint Arrangements* as the Company has rights to the net assets of CPT.

From the date of the divestment, the Group's interest in CPT is accounted for using the equity method in the consolidated financial statements. On this basis, the net assets of CPT, which were previously consolidated by the Group were derecognised. In addition, the Group's retained investment in the joint venture was measured at fair value as at the date of the transaction (19 April 2021). See details in Note 3.

Summarised financial information of the joint venture, based on its AASB financial statements, and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

	2021 $000
Investment in joint venture	25,798
Additional investment in joint venture	478
Loss	(77)
Investment in joint venture	**26,199**

Summarised statement of financial position of CPT at 30 June 2021:

	2021 $000
Current assets	
Cash and cash equivalents	25,579
Non current assets	
Property, plant and equipment	1
Exploration and evaluation	37,299
Current liabilities	
Trade and other payables	352
Non current liabilities	
Deferred tax liability	10,129
Equity	52,398
Group's share in equity (50%)	26,199
Group's carrying amount of the investment	26,199

15. INTEREST IN JOINT VENTURE (CONTINUED)

Summarised statement of profit or loss of CPT for the period from 19 April 2021 to 30 June 2021:

	2021 $000
Administrative expenses	(112)
Employee benefits	(41)
Foreign exchange loss	(2)
Loss for the period	(155)
Group's share of loss for the period (50%)	(77)

Exploration Commitments

The joint venture is required under the minimum exploration work requirements of the TL-SO-T-19-14 production sharing contract to perform well planning and long lead studies.

16. TRADE AND OTHER PAYABLES

	Consolidated	
	2021 $000	2020 $000
Current		
Trade payables	995	782
Director's fee payable	116	116
Non-trade payables and accrued expenses	199	49
	1,310	947

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 27.

17. CAPITAL AND RESERVES

	Consolidated	
	2021	2020
	Number of shares	
Contributed equity		
Balance at beginning of financial year	1,564,379,917	1,350,824,248
Issued for cash	1,000,000	211,583,102
Employee Share Plan issues	-	1,972,567
Balance at end of financial year	1,565,379,917	1,564,379,917

	2021 $000	2020 $000
Issued capital		
Balance at beginning of financial year	245,856	166,081
Reserve employee shares	(182)	1,040
Exercise of employee shares	444	64
Exercise of options	150	-
Proceeds from capital raise	-	78,671
Balance at end of financial year	246,268	245,856

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.

NOTES TO THE FINANCIAL STATEMENTS

17. CAPITAL AND RESERVES (CONTINUED)

	2021	2020
	Number of shares	
Reserve shares (plan shares)		
Balance at beginning of financial year	57,392,934	56,145,486
Employee Share Plan issues	-	1,972,567
Employee Share Plan repaid	(4,888,929)	(725,119)
Balance at end of financial year	52,504,005	57,392,934

	2021 $000	2020 $000
Reserve shares (plan shares)		
Balance at beginning of financial year	7,820	6,780
Employee Share Plan issues	(182)	1,040
Balance at end of financial year	7,638	7,820

Translation reserve

Movements in the translation reserve are set out in the Statement of Changes in Equity on page 52.

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

NOTES TO THE FINANCIAL STATEMENTS

18. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Consolidated	
	2021 $000	2020 $000
(a) Cash flows from operating activities		
Profit for the year	17,136	(4,137)
Adjustments for:		
Depreciation	53	29
Fair Value Movement of financial asset	302	408
Foreign exchange movement	1,030	928
Exploration expenditure write-off	-	(1,174)
Gain on disposal of subsidiary	(23,635)	-
Share of loss on Joint Venture	(78)	-
Operating loss before changes in working capital and provisions:	(5,192)	(3,659)
Changes in assets and liabilities:		
(Increase)/Decrease in other receivables	(71)	27
Decrease/(Increase) in other assets	85	(354)
Increase/ (Decrease) in trade and other payables	363	(829)
Decrease/(Increase) in provisions and employee benefits	(2)	148
Derecognition of other payables from subsidiary disposal	(40)	-
Net cash flows used in operating activities	(4,857)	(4,667)

(b) Reconciliation of cash and cash equivalents

	2021 $000	2020 $000
Cash at bank and at call	31,443	36,541
Cash on deposit	66,993	77,091
	98,436	113,632

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in Note 27.

Restricted cash of $218,000 consolidated relating to security deposits for corporate credit cards and rental of the Company's head office is included under other receivables (2020: $218,000 consolidated), see Note 8.

19. 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	
	2021 $000	2020 $000
Less than one year	250	650
Between one and five years	-	500
	250	1,150

Joint Venture exploration commitments

The Group, through its interest in the Carnarvon Petroleum Timor Unipessoal LDA joint venture, is required under the minimum exploration work requirements of the TL-SO-T-19-14 production sharing contract to perform well planning and long lead studies.

(b) Capital expenditure commitments

Data licence commitments	560	580

(c) leases

Lease information for the current reporting period is outlined in Note 12.

20. CONTINGENCIES

In accordance with normal petroleum industry practice, the Group has entered into joint operations and farm-in 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.

NOTES TO THE FINANCIAL STATEMENTS

21. EMPLOYEE BENEFITS

	Consolidated	
	2021 $000	2020 $000
(a) Employee benefits charged to P&L		
Salary and wages (including super)	4,464	4,667
Staff costs allocated to projects	(3,745)	(3,614)
Short term cash bonus	302	-
Share based payment expense	-	287
Total Employee benefits	1,021	1,340

	Consolidated	
	2020 $000	2020 $000
(b) Employee benefits liabilities		
Current:		
Liability for annual leave and long service leave	604	649
Non-Current:		
Provision for long service leave	202	160
Total Employee benefits	806	809

Employee Share Plan

Under the terms of the Carnarvon's previous 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.

NOTES TO THE FINANCIAL STATEMENTS

21. EMPLOYEE BENEFITS (CONTINUED)

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

	Number 2021	WAEP 2021	Number 2020	WAEP 2020
Outstanding at 1 July	57,392,934	0.25	56,145,486	0.24
Granted during the year	-	-	1,972,567	0.69
Forfeited during the year	-	-	-	-
Exercised during the year	4,888,929	0.09	725,119	0.09
Expired during the year	-	-	-	-
Outstanding at 30 June	-	-	57,392,934	0.25
Exercisable at 30 June	52,504,005	0.27	57,392,934	0.25

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

Fair value of ESP shares and related assumptions	Key management personnel 2021	Key management personnel 2020	Other employees 2021	Other employees 2020
Fair value at measurement date (cents)	-	14.6	-	-
Share price at date of issue (cents)	-	36	-	-
Exercise price (cents)	-	69	-	-
Expected volatility	-	68%	-	-
Expected life of ESP share	-	5 years	-	-
Expected dividends	-	Nil	-	-
Risk-free interest rate	-	1.5%	-	-
Share-based expense recognised	-	287,459	-	-

NOTES TO THE FINANCIAL STATEMENTS

21. EMPLOYEE BENEFITS (CONTINUED)

Options over equity instruments

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

2021	Held at 1 July 2020	Granted as compensation	Acquired/(sold)	Exercised	Held at 30 June 2021
Directors					
W Foster	500,000	-	-	500,000	-
P Moore	500,000	-	-	500,000	-

Options granted as compensation have a two-year vesting condition. 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 2021	WAEP 2021	Number 2020	WAEP 2020
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	1,000,000	0.15	-	-
Expired during the year	-	-	-	-
Outstanding at 30 June	-	-	1,000,000	0.15
Exercisable at 30 June	-	-	1,000,000	0.15

The weighted average remaining contractual life for the share options outstanding as at 30 June 2021 was zero. (2020: 5 months).

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

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.

NOTES TO THE FINANCIAL STATEMENTS

22. RELATED PARTY DISCLOSURES

Carnarvon Petroleum Limited hold 50% interest in Carnarvon Petroleum Timor Unipessoal LDA. During the reporting period there have been transactions between Carnarvon and its controlled entities and joint arrangements. Carnarvon provided technical, accounting and administrative services to Carnarvon Petroleum Timor Unipessoal Lda for which it charged fees of $876,000 (2020: $847,000). The Company provided accounting and administrative services to its other controlled entities for which it did not charge a management fee.

The Group provides a guarantee share of performance and obligations under the TL-SO-T-19-14 Production Sharing Contract to the regulator in Timor-Leste (Autoridade Nacional Do Petroleo E Minerais.

Carnarvon Petroleum has loaned CPT an amount of $3,221,000 as at 30 June 2021 (2020: $1,886,000). This amount is unsecured, interest-free and is only repayable out of the after-tax profits and has been recorded at a fair value of nil in the Group's statement of financial position as it is only repayable out of the after-tax profits of CPT noting that the Buffalo project is at an early stage of exploration and evaluation.

Other related party balances and transactions

At 30 June 2021, an amount of $ 116,250 (2020: $116,250) is included in Carnarvon and consolidated trade and other payables for outstanding director fees and expenses.

23. 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 capitalised exploration and evaluation expenditure reflected on the statement of financial position is in respect of exploration projects in 2021: Australia, 2020: Australia and Timor-Leste.

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.

Exploration and evaluation assets by geographical region

	2021 $000	2020 $000
Australia	129,500	121,273
Timor-Leste	-	1,349
	129,500	122,622

24. 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	
	2021 $000	2020 $000
Short term benefits	2,145	2,008
Post employment benefits	97	40
Share based payments	-	287
Long term benefits	(19)	47
	2,223	2,382

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 33 to 44.

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 fees and expenses are as follows:

	Consolidated	
	2021 $000	2020 $000
Current		
Director's fee payable	116	116

NOTES TO THE FINANCIAL STATEMENTS

24. 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:

2021	Held at 1 July 2020	Net acquired/ (sold)	Award under Employee Share Plan	Received on exercise of options	Held at 30 June 2021
Directors					
PJ Leonhardt [1]	17,750,000	-	-	-	17,750,000 [1]
WA Foster	925,938	-	-	500,000	1,425,938
AC Cook	15,938,797	-	-	-	15,938,797
P Moore	464,232		-	500,000	964,232
SG Ryan	267,701	37,520	-	-	305,221
D Bakker	-	304,774	-	-	304,774
Executives					
PP Huizenga	12,076,196	-	-	-	12,076,196
TO Naude	4,074,357	-	-	-	4,074,357

[1] This balance reflects the shares held by PJ Leonhardt on the date he retired as Director of 11 November 2020.

2020	Held at 1 July 2019	Net acquired/ (sold)	Award under Employee Share Plan	Received on exercise of options	Held at 30 June 2020
Directors					
PJ Leonhardt	17,750,000	-	-	-	17,750,000
WA Foster	850,938	75,000	-	-	925,938
AC Cook	13,738,025	228,205	1,972,567	-	15,938,797
P Moore	420,232	44,000	-	-	464,232
SG Ryan	229,240	38,461	-	-	267,701
D Bakker	-	-	-	-	-
Executives					
PP Huizenga	11,976,196	100,000	-	-	12,076,196
TO Naude	4,019,357	55,000	-	-	4,074,357

NOTES TO THE FINANCIAL STATEMENTS

24. 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:

2021	Held at 1 July 2020	Granted as compensation	Employee Share Plan cancellations	Exercised	Held at 30 June 2021
Directors					
PJ Leonhardt	3,000,000	-	-	3,000,000	-
WA Foster	-	-	-	-	-
AC Cook	12,945,592	-	-	-	12,945,592
P Moore	-	-	-	-	-
SG Ryan	-	-	-	-	-
D Bakker	-	-	-	-	-
Executives					
PP Huizenga	11,976,196	-	-	-	11,976,196
TO Naude	3,992,512	-	-	-	3,992,512

2020	Held at 1 July 2019	Granted as compensation	Employee Share Plan cancellations	Exercised	Held at 30 June 2020
Directors					
PJ Leonhardt	3,000,000	-	-	-	3,000,000
WA Foster	-	-	-	-	-
AC Cook	10,973,025	1,972,567	-	-	12,945,592
P Moore	-	-	-	-	-
SG Ryan	-	-	-	-	-
D Bakker	-	-	-	-	-
Executives					
PP Huizenga	11,976,196	-	-	-	11,976,196
TO Naude	3,992,512	-	-	-	3,992,512

(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:

2021	Held at 1 July 2020	Granted as compensation	Acquired/(sold)	Exercised	Held at 30 June 2021
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.

NOTES TO THE FINANCIAL STATEMENTS

25. CONSOLIDATED ENTITIES AND JOINT VENTURE

Name	Country of Incorporation	Ownership interest 2021	Ownership interest 2020
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%
Dorado Petroleum Pty Ltd	Australia	100%	100%
Carnarvon Bedout 1 Pty Ltd	Australia	100%	100%
Carnarvon Petroleum Timor Unip LDA [1]	Timor-Leste	50%	100%

[1] Entity no longer consolidated following 50% divestment of entity.

26. SUBSEQUENT EVENTS

1). On 1 July 2021, the Company has granted 3,119,670 performance rights to executives and other employees under the company's performance rights plan.
2). On 6 July 2021, the company formed a joint venture with Frontier Impact Group to produce renewable diesel and other sustainable products.
3). On 14 July 2021, the Company was granted Petroleum Exploration Permits EP 509 & TP/29 in the North West Shelf, offshore Western Australia.
4). On 23 August 2021, the Front End Engineering and Design contract for the Floating Platform, Storage and Offloading facility for the Dorado project in WA-437-P was awarded to Altera Infrastructure Production AS.
5). On 26 August, the contract for the design, construction and installation of the Well Head Platform, for the Dorado project in WA-437-P, was awarded to Sapura Energy.

Other than above, there is no other matters or circumstance which have arisen since 30 June 2021 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

NOTES TO THE FINANCIAL STATEMENTS

27. FINANCIAL RISK MANAGEMENT

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

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

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

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

(a) Interest rate risk

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

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

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

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

	Consolidated	
	2021	**2020**
Carrying amount (A$000)		
Financial assets – cash and cash equivalents	98,436	113,632
Weighted average interest rate (%)		
Financial assets – cash and cash equivalents	0.21%	0.66%

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

NOTES TO THE FINANCIAL STATEMENTS

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Sensitivity analysis

An increase in 25 basis points from the weighted average year-end interest rates at 30 June would have increased equity and profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2020:

	Consolidated	
	Equity $000	Profit and loss $000
30 June 2021	246	246
30 June 2020	281	280

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 2020:

	Consolidated	
	Equity $000	Profit and loss $000
30 June 2021	(246)	(246)
30 June 2020	(281)	(280)

(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 2021 or 30 June 2020 that were past due.

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

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	
	2021 $000	2020 $000
Carrying amount:		
Cash and cash equivalents	98,436	113,632
Other receivables	351	281
	98,787	113,913

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

NOTES TO THE FINANCIAL STATEMENTS

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	Gross 2021 $000	Impairment 2021 $000	Gross 2020 $000	Impairment 2020 $000
Not past due	351	-	281	-
	351	-	281	-

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.

(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 2021	
Cash and cash equivalents	9,956
Trade payables and accruals	-
Gross balance sheet exposure	9,956
30 June 2020	
Cash and cash equivalents	10,385
Trade payables and accruals	-
Gross balance sheet exposure	10,385

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
AUD to:	2021	2020	2021	2020
1 USD	1.337	1.489	1.332	1.454

NOTES TO THE FINANCIAL STATEMENTS

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Sensitivity analysis

A 5% strengthening of the AUD against the USD for the 12 months to 30 June 2021 and 30 June 2020 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 2021		
USD	(631)	(631)
30 June 2020		
USD	(719)	(719)

A 5% weakening of the AUD against the USD for the 12 months to 30 June 2020 and 30 June 2019 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 2021		
USD	698	698
30 June 2020		
USD	795	795

(f) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The Group's approach to managing this risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due under a range of financial conditions. The Group's significant balance of cash and cash equivalents are considered to be adequately address this risk.

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

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

	Carrying amount $000	Contractual cash flows $000	6 months or less $000	6 to 12 months $000
30 June 2021				
Non-derivative financial liabilities				
Trade and other payables	1,111	1,111	1,111	-
30 June 2020				
Non-derivative financial liabilities				
Trade and other payables	898	898	898	-

28. 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 2021	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Other financial assets	1,339	-	-	1,339
Total assets	1,339	-	-	1,339

30 June 2020	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Other financial assets	1,037	-	-	1,037
Total assets	1,037	-	-	1,037

There were no transfers between levels during the financial year.

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

On 19 April 2021, the Group divested 50% of its interest Carnarvon Petroleum Timor Unipessoal LDA. The Group has accounted for the remaining 50% interest at fair value at the date of disposal.

NOTES TO THE FINANCIAL STATEMENTS

29. 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:

	2021 $000	2020 $000
Statement of financial position		
Current Assets	99,515	114,693
Non-current assets	159,657	124,022
Total assets	259,172	238,715
Current liabilities	1,914	1,584
Non-current liabilities	846	990
Total liabilities	2,760	2,574
Equity		
Issued Capital	246,268	245,856
Accumulated gain/ loss	10,674	(9,003)
Reserves	(530)	(712)
Total equity	256,412	236,141
Statement of comprehensive income		
Total gain/loss	19,677	(3,616)
Total comprehensive gain/loss	19,677	(3,616)

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.

NOTES TO THE FINANCIAL STATEMENTS

29. PARENT INFORMATION (CONTINUED)

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

	Parent	
	2021 $000	2020 $000
Less than one year	250	650
Between one and five years	-	500
	250	1,150
(b) Capital expenditure commitments		
Data licence commitments	560	580

30. CONTINGENT ASSETS AND LIABILITIES

There were no contingent assets and liabilities as at 30 June 2021 (2020: $0).

31. 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.

The consolidated entity has adopted all the new, revised or amended 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.

(c) Basis of measurement

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

NOTES TO THE FINANCIAL STATEMENTS

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

(d) Functional 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.

(e) 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.

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. This 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 judgement – joint control

The determination of whether the Company has joint control, in relation to a joint arrangement, requires consideration of contractual arrangements. The Company must determine if there is a contractually agreed sharing of control, which only exists when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Key judgements – other

Other areas of judgement are in the determination of oil reserves, and capitalisation of exploration and evaluation costs, determination and definitions of areas of interest.

(f) 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.

NOTES TO THE FINANCIAL STATEMENTS

32. 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.

(a) Basis of consolidation

Controlled entities

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2021. 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.

NOTES TO THE FINANCIAL STATEMENTS

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 14.

Joint Ventures

The Group's investments in joint ventures are accounted for using the equity method. Details of the Group's interests in joint ventures are provided in Note 15.

(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.

NOTES TO THE FINANCIAL STATEMENTS

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

32. 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 30(e).

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 non-financial assets and impairment testing

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.

32. 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. 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.

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.

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

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.

NOTES TO THE FINANCIAL STATEMENTS

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

NOTES TO THE FINANCIAL STATEMENTS

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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).

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.

NOTES TO THE FINANCIAL STATEMENTS

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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.

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) Share capital

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

NOTES TO THE FINANCIAL STATEMENTS

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Employee benefits

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. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

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.

(l) 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.

(m) Cash and cash equivalents

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

NOTES TO THE FINANCIAL STATEMENTS

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) 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.

(o) 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.

(p) Investment in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investment in its joint venture is accounted for using the equity method.

Under the equity method, the investment in a joint venture is initially recognised at cost.

The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date.

(q) 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 2021. 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:

NOTES TO THE FINANCIAL STATEMENTS

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Impact on the Company	Application date of standard	Application date for Group
AASB 2020-3 Amendments to AASs – Annual Improvements 2018–2020 and Other Amendments	*Amendments to AASB 3, Reference to the Conceptual Framework*	The IASB's assessment of applying the revised definitions of assets and liabilities in the Conceptual Framework to business combinations showed that the problem of day 2 gains or losses would be significant only for liabilities that an acquirer accounts for after the acquisition date by applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies. The Board updated IFRS 3 in May 2020 for the revised definitions of an asset and a liability and excluded the application of the Conceptual Framework to liabilities and contingent liabilities within the scope of IAS 37 or IFRIC 21.	The Company is still assessing the impact.	1 January 2022	1 July 2022
AASB 2020-3 Amendments to AASs – Annual Improvements 2018–2020 and Other Amendments	*Amendment to AASB 9, Fees in the '10 per cent' Test for Derecognition of Financial Liabilities*	Under AASB 9, an existing financial liability that has been modified or exchanged is considered extinguished when the contractual terms of the new liability are substantially different, measured by the "10 per cent" test. That is, when the present value of the cash flows under the new terms, including any fees paid or received, is at least 10 per cent different from the present value of the remaining cash flows of the original financial liability. The amendment to AASB 9 clarifies that fees included in the 10 per cent test are limited to fees paid or received between the borrower and the lender, including amounts paid or received by them on the other's behalf. When assessing the significance of any difference between the new and old contractual terms, only the changes in contractual cash flows between the lender and borrower are relevant. Consequently, fees incurred on the modification or exchange of a financial liability paid to third parties are excluded from the 10 per cent test.	The Company is still assessing the impact.	1 January 2022	1 July 2022

NOTES TO THE FINANCIAL STATEMENTS

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Impact on the Company	Application date of standard	Application date for Group
AASB 2014-10	Amendments to AASs – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The amendments to AASB 10 Consolidated Financial Statements and AASB 128 Investments in Associates and Joint Ventures clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in AASB 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.	The Company is still assessing the impact.	1 January 2022	1 July 2022
AASB 2020-1 Amendments to AASs	*Classification of Liabilities as Current or Non-current*	A liability is classified as current if the entity has no right at the end of the reporting period to defer settlement for at least 12 months after the reporting period. The AASB recently issued amendments to AASB 101 Presentation of Financial Statements to clarify the requirements for classifying liabilities as current or non-current. Specifically: • The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. • Management intention or expectation does not affect classification of liabilities. • In cases where an instrument with a conversion option is classified as a liability, the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current.	The Company is still assessing the impact.	1 January 2023	1 July 2023

NOTES TO THE FINANCIAL STATEMENTS

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Impact on the Company	Application date of standard	Application date for Group
AASB 2021-2 Amendments to AASs – Disclosure of Accounting Policies and Definition of Accounting Estimates	*Amendments to AASB 7, AASB 101, AASB 134 and AASB Practice Statement 2*	The amendments to AASB 101 require disclosure of material accounting policy information, instead of significant accounting policies. Unlike 'material10', 'significant' was not defined in Australian Accounting Standards. Leveraging the existing definition of material with additional guidance is expected to help preparers make more effective accounting policy disclosures. The guidance illustrates circumstances where an entity is likely to consider accounting policy information to be material. Entity-specific accounting policy information is emphasised as being more useful than generic information or summaries of the requirements of Australian Accounting Standards.11 The amendments to AASB Practice Statement 2 supplement the amendments to AASB 101 by illustrating how the four-step materiality process can identify material accounting policy information.	The Company is still assessing the impact.	1 January 2023	1 July 2023

NOTES TO THE FINANCIAL STATEMENTS

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reference	Title	Summary	Impact on the Company	Application date of standard	Application date for Group
AASB 2021-2 Amendments to AASs – Disclosure of Accounting Policies and Definition of Accounting Estimates	*Amendments to AASB 108*	An accounting policy may require items in the financial statements to be measured using information that is either directly observable, or estimated. Accounting estimates use inputs and measurement techniques that require judgements and assumptions based on the latest available, reliable information. The amendments to AASB 108 clarify the definition of an accounting estimate, making it easier to differentiate it from an accounting policy. The distinction is necessary as their treatment and disclosure requirements are different. Critically, a change in an accounting estimate is applied prospectively whereas a change in an accounting policy is generally applied retrospectively17. The new definition provides that 'Accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty.' The amendments explain that a change in an input or a measurement technique used to develop an accounting estimate is considered a change in an accounting estimate unless it is correcting a prior period error. The amendments did not change the existing treatment for a situation where it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate. In such a case, the change is accounted for as a change in an accounting estimate.	The Company is still assessing the impact.	1 January 2023	1 July 2023

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 50 to 96 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 2021 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 32; 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 2021.

Signed in accordance with a resolution of the directors.

William A Foster
Chairman

Perth, 30 August 2021

INDEPENDENT AUDIT REPORT

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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 2021, the consolidated income statement and 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 2021 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 (including Independence Standards)* (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.

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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 13 to the financial report, the Group held capitalised exploration and evaluation expenditure of $129,500,000 as at 30 June 2021. Under AASB 6 *Exploration for and Evaluation of Mineral Resources,* the recoverability of exploration and evaluation assets is subject to the Group's ability and intention to continue to explore and evaluate such assets. 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: ► We considered the Group's right to explore in the relevant exploration area which included obtaining and assessing supporting documentation such as license agreements. ► We 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 enquiries of management and the Board of Directors as to the intentions and strategy of the Group. ► We assessed management's assertion 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 company announcements and review of minutes of directors' meetings. ► We assessed the directors' review of the carrying value of exploration and expenditure, ensuring that there was consideration of the effect of potential indicators of impairment. ► We assessed the adequacy of the financial report disclosures contained in Note 13 of the financial report.

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2. Accounting for the Group's interest in Carnarvon Petroleum Timor Unipessoal LDA ("CPT")

Why significant	How our audit addressed the key audit matter
As disclosed in Notes 3 and 15 to the financial report, as at 30 June 2020 the Group held a 100% interest in CPT and consolidated CPT. During the year ended 30 June 2021 the Group divested 50% of its interest in CPT to a third party. As CPT is no longer a controlled entity, the Group is required to recognise its remaining interest in CPT at fair value, after which it is accounted for using the equity method. As a result of this transaction the Group recorded a gain on loss of control of a subsidiary of $23,635,500 (refer to Note 3 to the financial report) and holds an interest in a joint venture of $26,199,000 as at 30 June 2021 (refer to Note 15 to the financial report). There is judgement involved in the assessment of whether the Group has lost control of CPT following the sale of a 50% interest and in the determination of the nature of the investment and appropriate accounting treatment for the interest retained. The determination of the fair value of the retained investment also involves significant judgement.	Our audit procedures included the following: ► We reviewed the agreements to understand the contractual terms and conditions, ensuring that management's accounting treatment of the transaction is supported and reasonable. ► We agreed the cash consideration received by CPT to the bank statement. ► We reviewed management's determination of the date when control is lost. ► We involved our valuation specialists to assess the reasonableness of the fair value of the exploration and evaluation assets within CPT ► We assessed the appropriateness of the accounting entries recorded to account for the transaction. ► We considered whether there was any objective evidence to suggest that the Group's investment in CPT is impaired at the balance sheet date. ► We assessed the adequacy of the financial report disclosures contained in Notes 3 and 15 to 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 2021 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.
- 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, actions taken to eliminate threats or safeguards applied.

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 pages 32 to 44 of the directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Carnarvon Petroleum Limited for the year ended 30 June 2021, complies with section 300A of the *Corporations Act 2001*.

INDEPENDENT AUDIT REPORT

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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

T S Hammond
Partner
Perth
30 August 2021

ADDITIONAL SHAREHOLDER INFORMATION

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

a) Shareholdings as at 27 August 2021

Substantial shareholders

Name of Shareholder	Number of Shares	Date of Notice
McCusker Holdings Pty Ltd (ACN 009 466 586), Martindale Pty Ltd (ACN 008 690 604)	81,000,000	23 July 2021

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 Pty Limited	80,516,478	5.14
HSBC Custody Nominees (Australia) Limited	75,882,484	4.85
McCusker Holdings Pty Ltd	72,000,000	4.60
Citicorp Nominees Pty Limited	58,109,219	3.71
Nero Resource Fund Pty Ltd	32,355,008	2.07
BNP Paribas Nominees Pty Ltd	24,205,606	1.55
Marford Group Pty Ltd	21,225,155	1.36
Havannah Investments Pty Ltd	16,710,037	1.07
BNP Paribas Noms Pty Ltd	12,926,048	0.83
Prettejohn Projects Pty Ltd	12,100,000	0.77
Mr Philip Paul Huizenga	11,876,196	0.76
Brixia Investments Ltd	11,743,000	0.75
Mr Adrian Caldwell Cook Ms Belinda Michelle Honey	11,520,592	0.74
BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd	10,119,945	0.65
National Nominees Limited	9,651,642	0.62
Mr Edward Patrick Jacobson	9,522,482	0.61
Martindale Pty Ltd	9,000,000	0.57
Bretworth Pty Ltd	9,000,000	0.57
Geolyn Pty Ltd	8,800,000	0.56
Jacobson Geophysical Services Pty Ltd	8,754,068	0.56
Kinabalu Australia Pty Ltd	8,500,000	0.54
	514,517,960	**32.86**

ADDITIONAL SHAREHOLDER INFORMATION

Distribution of equity security holders

Size of Holding			Number of shareholders	Number of fully paid shares
1	to	1,000	632	242,036
1,001	to	5,000	2,466	7,408,143
5,001	to	10,000	1,856	15,330,660
10,001	to	100,000	5,154	205,028,170
100,001	and over		1,793	1,337,370,908
			11,901	1,565,379,917

b) Option holdings as at 27 August 2021

There are no current option holdings.

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
TL-SO-T 19-14 PSC	Bonaparte / Timor-Leste	Advance Energy PL	50%	Carnarvon
WA-155-P	Barrow / Australia	Carnarvon	100%	Carnarvon
WA-521-P	Roebuck / Australia	Carnarvon	100%	Carnarvon
WA-523-P	Bonaparte / Australia	Carnarvon	100%	Carnarvon
WA-524-P	Dampier / Australia	Carnarvon	100%	Carnarvon
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

CARNARVON
PETROLEUM LTD