



CARNARVON
ENERGY LTD

**2022 ANNUAL
REPORT**

Carnarvon Energy Limited
ABN 60 002 688 851

CORPORATE DIRECTORY

Directors

WA Foster (Chairman)
AC Cook (Managing Director)
P Moore (Non-Executive Director)
SG Ryan (Non-Executive Director)
D Bakker (Non-Executive Director)

Company Secretary

A Doering
G Sproule

Auditors

Ernst & Young

Bankers

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Stock Exchange Listing

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

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CHAIRMAN'S REVIEW

The past twelve months have seen considerable successful activity at Carnarvon, tempered by some disappointments.

Good progress has been made on the Dorado development, the renewable diesel project, and a successful Pavo exploration well. All of this has been achieved against a background of COVID related disruption, financial markets uncertainty and supply chain challenges.

I wish to show my appreciation to my fellow board members for their counsel and support, and Carnarvon's staff for their talented efforts and dedication to furthering Carnarvon's future. I'd also like to thank our shareholders, both old and new for their ongoing support and belief in the Company.

The Company's focus has remained unchanged from that established some two to three years ago with three major areas of activity. Firstly, the development of the Dorado field and surrounding discoveries such as Pavo. Secondly, further exploration of the highly prospective Bedout Sub-basin for major oil and gas developments and finally our transition to a sustainable energy business, such as renewable diesel.

All these activities are being conducted under the umbrella of a net zero emissions policy to be achieved before 2050.

In terms of the Company's core project, the Front-End Engineering and Design (FEED) work on the Dorado development made substantial progress during the year. However, the current inflationary cost environment and period of supply chain uncertainties means that the Joint Venture has adopted a prudent approach which does not support a Final Investment Decision (FID) in 2022. The Company remains focused on value enhancement through further drilling in the Bedout Sub-basin and optimisation of the Dorado development concept.

A key to optimising the Dorado development includes incorporating the success of the Pavo-1 well earlier this year, which has considerably enhanced the proposed Dorado development's commerciality. The development resource, from Dorado coupled with the Pavo discovery, has substantially increased. Most importantly, this increased resource lowers overall capital and operating cost per barrel whilst allowing for a longer production plateau.

The Pavo South prospect, which is separated from the structure drilled in the Pavo-1 well (Pavo North) by a narrow syncline, has the potential to add significant additional resources, if successful, further enhancing project returns. The Pavo North and South fields are, by industry standards, expected to be conventional tie-ins to the proposed Dorado infrastructure.

The Bedout Sub-basin is in its early infancy as an exploration area and remarkably its success to date has been excellent. Unfortunately, this was not the case with the Apus-1 well drilled following Pavo-1.





Carnarvon has a very positive future and one that will deliver considerable value to its shareholders. It has been a privilege to have been involved with this Company as Chairman over the last twelve months.

However, despite this result, the Bedout Sub-basin has still proven to be prolific with a relatively high rate of success. With substantial 3D seismic data acquired over the basin, the Joint Venture has continued to develop and select the best prospects for further exploration.

Carnarvon's renewable diesel Joint Venture in Narrogin, Western Australia, is the first step in the Company's transition to building a large sustainable business. The project is materially progressing towards FID. There is a significant opportunity to build this business across Australia to one where some eight thousand barrels of diesel per day could be produced by 2030. To date Carnarvon has found strong interest in the renewable diesel by consumers across various industries. Along with the diesel, wood vinegar and biochar are produced which can be used in soil remediation and carbon absorption. In the future, a portion of the biochar has the potential to be refined into graphene raising its sale value considerably.

Recent geopolitical events in Europe have highlighted the need for national and regional energy and fuel security. High quality oil fields such as Dorado and Pavo will greatly assist in raising fuel security levels in Australia and the Asian region.

The transition to a low carbon economy will be a gradual one and cannot be achieved overnight. International energy agencies have forecast that even with the best possible steps being taken to develop renewable energy sources, oil will remain an important energy source over the next thirty years.

Carnarvon takes its social licence very seriously. Our activities are conducted in accordance with Environmental, Social and Governance policies which have been improved and developed over the last few years and are regularly reviewed to match regulatory requirements and community expectations.

Looking forward, Carnarvon has a very positive future and one that will deliver considerable value to its shareholders. It has been a privilege to have been involved with this Company as Chairman over the last twelve months and once more I wish to thank all those who have helped place Carnarvon where it is today.

William (Bill) Foster
Chairman

MANAGING DIRECTOR'S REVIEW



This year we successfully increased the discovered oil and condensate resources in the Bedout Sub-Basin by 26%. This achievement occurred through the Pavo-1 discovery which added 43 million barrels (gross, 2C) (see page 18) to the nearby Dorado field's 162 million barrels (gross, 2C). Given the different equity levels held in the permits, Carnarvon's share of these resources increased 37% from 32 million barrels (2C) in Dorado to 44 million barrels (2C) in Pavo and Dorado. This is a significant cumulative resource for Carnarvon, particularly when considered as an aggregated development utilising the proposed Dorado production facilities.

During the year, significant progress was achieved on the Dorado development. With Front-End Engineering and Design (FEED) work on the Dorado production facilities substantially complete.

The Dorado facilities engineering, and subsurface studies have confirmed the project will initially produce 75,000 to 100,000 barrels of oil per day (gross). Given the light sweet nature of the Dorado crude, external market analysis has also indicated that sales are likely to achieve a premium to Brent.

The project is further enhanced by the planned re-injection of the associated gas into the Dorado reservoirs which is expected to maintain strong production rates whilst also facilitating the project's low relative emissions profile which is already enhanced by a low CO₂ content of less than 2% in the fluids.

Importantly, the Company has continued to pursue high graded exploration targets in the prolific Bedout Sub-basin. These efforts provided another stellar exploration success with the discovery of light sweet oil in the Pavo-1 well.

With an estimated resource of 43 million barrels (gross, 2C) (see page 18), located only 46 kilometres from the Dorado field, the Pavo resource can be tied back to the proposed Dorado production facilities with no material increase in operational costs.

Significantly, the Pavo discovery proves the extension of a working petroleum system, quality reservoirs and trapping mechanisms some 46 kilometres east of Dorado. This area also hosts a suite of other exploration targets which now warrant further assessment for drilling. In Particular, the Pavo South structure potentially has a further 74 million barrels (gross, Pmean) to add to the existing Dorado and Pavo resource base.

Following a string of exploration successes in the Bedout Sub-basin, the Company was disappointed to announce during the period, that despite encountering excellent quality reservoirs, the Apus-1 well did not discover a commercial quantity of hydrocarbons. The results indicated that whilst there was evidence that hydrocarbons had migrated to the Apus-1 location, they either have not been retained in the drilled closure or migrated in sufficient quantity.

The Buffalo-10 well, which was the Company's first offshore well as operator, unfortunately had a similar result to that of Apus-1. The oil column encountered by the well was deemed residual and uncommercial.



The Company also plans to mature the renewable diesel business and look towards securing new opportunities where they make strong business sense and offer compelling value and earnings for shareholders.

Importantly, however, the Company's exposure to the well was mitigated by a free carry for the first US\$20m of the Buffalo-10 well costs through a farm-down of a 50% interest in the project.

I was pleased, however, that the Company's first operated offshore well was drilled safely and without environmental incident. This is a credit to the Company's operations team and the drilling management team at Petrofac.

Exploration endeavours, by their nature, will naturally present a range of outcomes. But through these types of endeavours Carnarvon now has a strong resource base in the Bedout. With growing concerns around global energy security, compounded by an extended period of underinvestment in oil projects, the Company has positioned itself, through its portfolio of assets, to capitalise on what is expected to be a strong oil price environment into the future. Oil fields such as Dorado, Pavo and future exploration success are essential to meeting global energy demand and maintain significant potential to generate considerable returns for the Company's shareholders in the upcoming years.

The Company also recognises the importance of a responsible and sustainable energy transition, of which the Company has an important role to play. To this end, the Company commenced a renewable fuel Joint Venture, FutureEnergy Australia (FEA) during the year, which aims to pursue emerging renewable energy supply sources and technologies, particularly where they provide earnings opportunities linked to robust fuel prices.

The FEA Joint Venture made considerable progress during the year, with FEED commenced on its first biorefinery project. The refinery is planned to be located in the Narrogin Shire and is lining up to be the first in Australia to produce renewable diesel at commercial scale using sustainable biomass feedstock sources such as waste agricultural residues.

In a significant boost to the project, the Joint Venture secured a \$2m grant from the Clean Energy Future Fund, which acknowledges the clear benefits renewable diesel can bring to reducing carbon emissions and creating a carbon-neutral alternative fuel in Western Australia.

Looking forward, our focus is on delivering our flagship Dorado project to FID, in addition to appraising and developing the Pavo oil discovery and progressing our broader Bedout basin exploration. These activities alone have the potential to generate substantial value for shareholders. The Company also plans to mature the renewable diesel business and look towards 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

HIGHLIGHTS FOR THE COMPANY DURING THE 2022 FINANCIAL YEAR WERE:

Pavo oil discovery with a material 43mmbbl (gross, 2C) (see page 18) contingent resource being declared.

Dorado Front End Engineering Design (**FEED**) materially progressed for the project, including Wellhead Platform and Floating Production Storage and Offloading vessel.

Production Licence granted for the Dorado Field, allowing the Dorado Joint Venture to produce petroleum from the Dorado Licence Area.

Additional 3D seismic surveys acquired over the Bedout Sub-basin to unlock further prospectivity over the acreage.

Commitment to achieving net zero emissions by 2050, if not earlier.

Commencement of a renewable diesel Joint Venture officially launched as FutureEnergy Australia.

FEED commenced on FutureEnergy Australia's first renewable diesel biorefinery which has been awarded a \$2m Clean Energy Future Fund grant.

Pepper Project

EP 509 100%

TP/29 100%

Outtrim Project

WA-155-P 100%

Onslow



Figure 1: Carnarvon Interests as at 30 June 2022 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 21,652km² 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, the 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 preliminary 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. The discovery 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 three additional reservoirs. The subsequent appraisal of the Dorado discovery was successfully completed with the well 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 Sub-basin and has proven to be transformational for the Company.



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

Dorado Development (WA-437-P)

(Carnarvon 20%, Santos is the Operator)

The scale and quality of the Dorado Project has enabled the Joint Venture to progress the project through the development planning phase. Key milestones towards the Dorado Field Development were achieved during the year, as the project progressed through the Front End Engineering Design (FEED) process.

Production of the large quantities of valuable hydrocarbons at Dorado are planned over a multi-phased development, with the initial development (Phase 1) 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 of development (Phase 2). The reinjection of gases during Phase 1 is expected to considerably enhance the recovery of liquids from the field. As a result, the initial gross oil production rate from the field is targeted for 100,000 barrels per day.

Plans for the Phase 1 development 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 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. It also allows for storage of oil and condensate as well as offloading to a separate oil transport tanker.

The FPSO is the project's largest component, comprising engineering, procurement of equipment, bulk materials, services, construction, installation, commissioning and testing of the facility. The WHP will have the capacity to accommodate up to 16 individual wells from a single drill centre. The initial development will have 10 wells, meaning the WHP will have the capacity to accommodate production from future infill drilling.

The FPSO is also being designed with flexibility to allow tie backs following future exploration successes within the area such as the recent Pavo oil discovery. FEED contracts for both the FPSO and WHP were awarded during the period with significant and detailed design work being substantially completed following the end of the period.

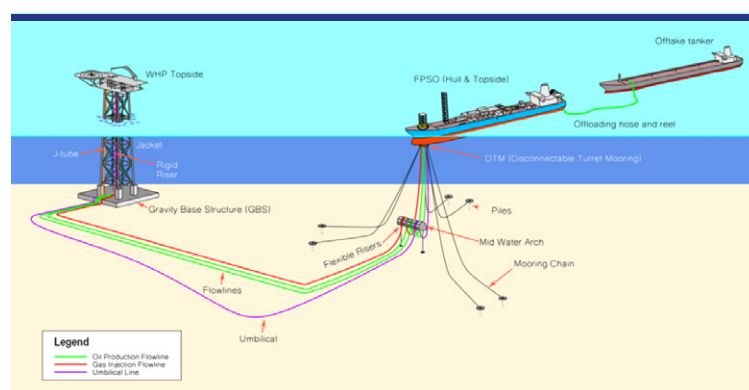


Figure 3: Proposed Dorado Field Development Layout.

Towards the end of the period, the Dorado Joint Venture was granted a production licence for the Dorado Field, WA-64-L. The production licence enables the Joint Venture to produce hydrocarbons from the licence area, as well as continue to explore for, and appraise, any additional hydrocarbons within this area. The grant of the production licence represents a key regulatory approval for the Dorado project.

Carnarvon has also commenced a formal process to fund its share of the Dorado development. The Company, along with its financial advisor, has been progressing a range of potential sources of capital. These include traditional reserve-based non-recourse senior debt facilities, alternative funding options (including junior debt, offtake prepayment and royalties), and divestment of a portion of the Company's share of the Dorado project and associated exploration acreage. At the end of the financial period, both the debt and equity funding processes were well advanced. The Company is considering all funding options to deliver the optimal balance of capital management while maximising value for shareholders.

In August 2022, the Joint Venture, with consideration of the current inflationary cost environment and period of supply chain uncertainties, adopted a prudent approach which does not support a Final Investment Decision (FID) in 2022.

OPERATING AND FINANCIAL REVIEW

Pavo Oil Discovery (WA-438-P)

(Carnarvon 30%, Santos is the Operator)

In February 2022, Carnarvon and Joint Venture partner Santos commenced the Pavo-1 exploration well, located 46 kilometres east of Dorado in a water depth of approximately 88 metres. The well tested the northern culmination of the greater Pavo structure, a structural/stratigraphic trap underpinned by the Dorado Canyon, observed also at the Dorado Field. The Caley Member was the primary reservoir target, which is also the primary hydrocarbon bearing interval in the Dorado Field.

The Pavo-1 well encountered a 60-meter gross hydrocarbon column within the Caley Member reservoir. Subsequent wireline data confirmed a 46-meter net oil pay, with an oil-water contact intersected at 3,004 metres measured depth (MD), or 2,960 metres sub-sea (mss). The oil column is wholly contained within the northern culmination of the Pavo structure (Pavo North) (Figure 4).

Excellent Caley Member reservoir quality was interpreted from wireline logs, with 19% average porosity, permeabilities in the 100 to 1000 milliDarcy range and hydrocarbon saturations averaging 80%. This represents a similar reservoir quality to those encountered in the Dorado Field. Oil samples collected from Pavo-1 indicate that the crude is a light, sweet oil (~52 degrees API) with a relatively low Gas/Oil Ratio (GOR) (~300scf/bbl) compared to the Dorado fluids, however, the GOR is high enough to suggest that sufficient gas is available on production to ensure efficient lifting of fluid from the reservoir.

The recovery factors are inferred to be extremely good due to the excellent reservoir parameters, the light nature of the fluid, and the very likely strong aquifer drive.

The Pavo-1 well drilled ahead in the 8.5 inch hole to a total depth of approximately 4,235 metres MD, which provided valuable additional information on the Early Triassic and Upper Permian stratigraphy which had not previously been intersected in the basin. As expected, no commercial hydrocarbons were encountered in these deeper sections; however, the Joint Venture has acquired key information to de-risk and enhance the geological understanding of a significant number of existing prospects in the wider basin.

A 2C contingent resource for Pavo North is assessed at 43 million barrels of oil (mmbbl) gross, of which, 13mmbbl is net to Carnarvon (page 18).

The Pavo oil discovery lies within industry standard ranges for tie-back distance and could be delivered to the Dorado facilities at a time and rate that enables very efficient utilisation of the Dorado facility, extending the period of time at which the Dorado project can produce at capacity.

Given the excellent reservoir quality in the Caley Member, the Pavo North field could be developed with a relatively low number of production wells and tied-back to the Dorado FPSO.

The Pavo North oil discovery proves the extension of a working petroleum system some 46 kilometres east of Dorado and demonstrates that quality reservoir and trapping mechanisms are effective in this area, which hosts a suite of other exploration targets. These will now warrant further assessment for drilling.

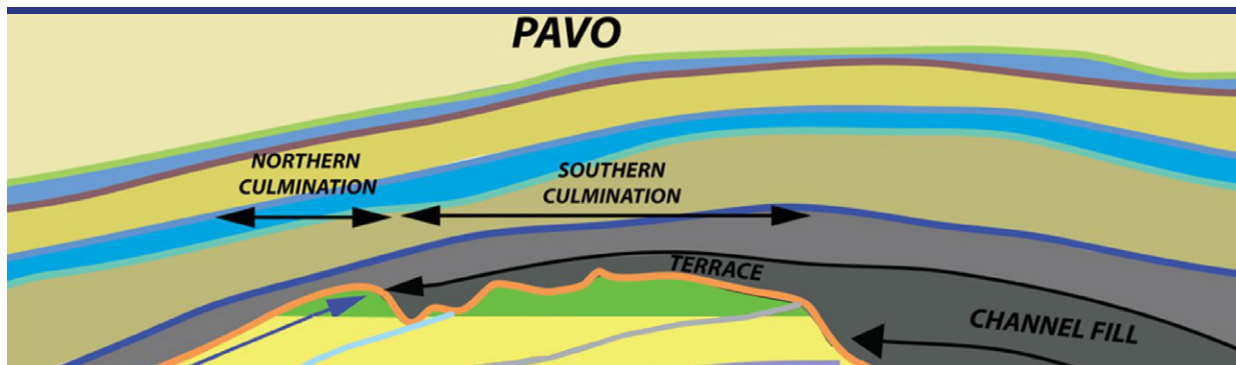


Figure 4: Schematic illustrating the North and South culminations of the greater Pavo structure.

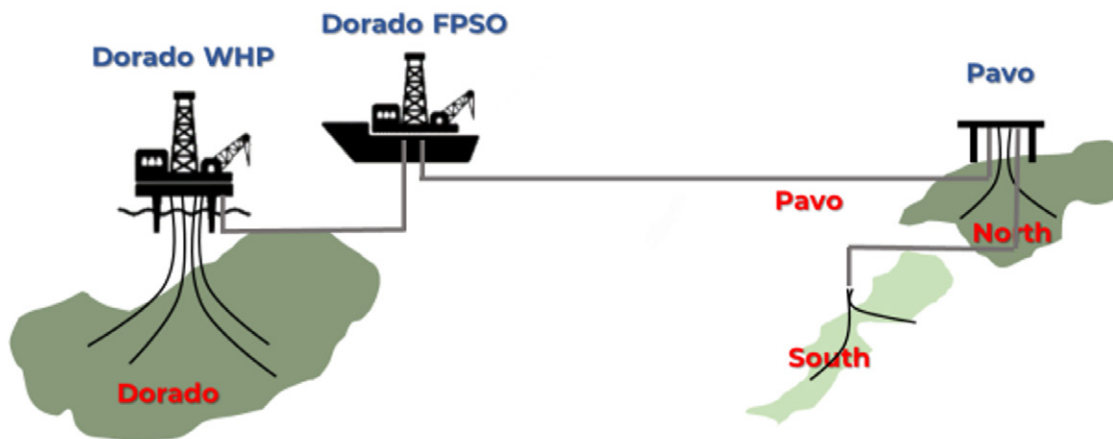


Figure 5: Illustration depicting potential FPSO tie-backs of Pavo North and South

Exploration – Greater Bedout Area (WA-435-P, WA-436-P, WA-437-P and WA-438-P)

(Carnarvon 20%-30%, Santos is the Operator)

The recent Pavo-1 oil discovery has further de-risked numerous prospects within the Company's considerable Bedout Sub-basin acreage such as the Pavo South prospect.

Given its close proximity to Pavo North, and near identical prospect elements demonstrated by seismic, the Pavo South structure is interpreted to have an excellent geological chance of success. Indications of a deeper, residual or paleo-oil-water contact in the Pavo-1 well at around 3,045 metres MD, or 3,001 metres mss (Figure 4) may indicate that the two Pavo culminations were connected at a previous point in time. If this was the case, a common deeper contact supports the charging of both structures with the same oil that was discovered in the Pavo North structure.

The Pavo South resource (once drilled and confirmed) could also be tied-back with additional wells potentially being connected to the Pavo facilities (Figure 5).

During the year, the Company also progressed work to assist in finding the next material drilling targets. This includes the Joint Venture undertaking an extensive 3D seismic acquisition campaign across the Bedout acreage. The Keraudren Extension 3D (KE-3D) seismic survey acquisition was completed in February 2022, which provided an additional 3,360 square kilometres over the southern and central portions of the

WA-436-P permit and the northern area of WA-438-P permits, in close proximity to the Pavo discovery. The survey covers a large group of relatively shallow structural and stratigraphic leads over multiple play intervals in the eastern play fairway of the Bedout Sub-basin (Figure 6).

These prospects had previously been identified on 2D seismic data and are expected to be enhanced by the improved granularity provided by contiguous 3D seismic. This could result in the identification of a greater number of prospects and leads within this proven hydrocarbon basin as well as the possible merging together of currently identified leads. The previous 2D data was on a grid of 8 square kilometres, meaning fields such as Pavo (approximately five square kilometers²) and Dorado (approximately nine square kilometres in the Caley Member) could exist in the gaps between the seismic lines.

At the end of the period, the Company had commenced seismic interpretation of a preliminary fast-tracked volume of the KE-3D. The KE-3D seismic survey acquisition was completed over two phases, with the initial phase acquired in mid-2021 and the latter phase acquired in early 2022. The survey has infilled a 3D seismic data gap between the Keraudren

OPERATING AND FINANCIAL REVIEW

3D to the south and the Zeester 3D seismic survey to the north. As a result, the WA-436-P permit is now 97% covered by 3D seismic data which allows the Joint Venture to de-risk and identify prospects on the eastern play fairway in greater detail, especially those on trend and nearby the recent Pavo discovery.

At the beginning of the period, the Joint Venture also acquired the Archer 3D seismic survey. A fast-track seismic volume for the Archer 3D seismic volume, was received during the year which is currently being interpreted. The Archer 3D encompasses the Dorado Field and the immediate exploration area to the south-west at an alternative acquisition azimuth and which complement the pre-existing Keraudren and Capreolus 3D seismic surveys.

Following the seismic acquisitions over the recent years, 68% of the Bedout acreage is now covered by modern 3D seismic, which is significantly enhancing the Company's understanding of the Bedout Sub-basin's prospectivity.

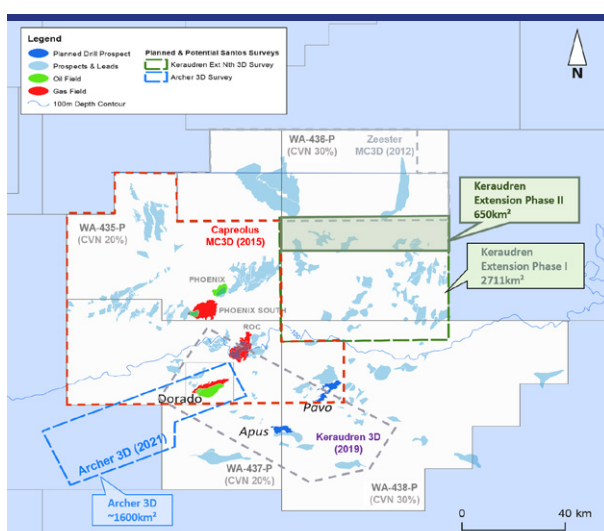


Figure 6: Bedout acreage map highlighting the recently drilled Pavo-1 and Apus-1 wells as well as the Keraudren Ext, Keraudren Extension Phase II and Archer 3D seismic volumes.

Apus-1 Exploration Well (WA-437-P)

(Carnarvon 20%, Santos is the Operator)

Following the significant oil discovery at Pavo, Carnarvon and Joint Venture partner Santos immediately drilled the Apus-1 well, 27 kilometres southwest of Dorado in 84 meters water depth. The Apus-1 well was targeting a structural stratigraphic trap situated on the Apus Island, an erosional remnant segmented on either side by the Dorado and Apus shale-filled canyons. The erosional remnant creates the same trapping geometry observed at both the Dorado and Pavo discoveries. However, the two canyons subsequently isolate Apus and associated prospects from both Pavo and Dorado. The primary target was the Caley Member, the same reservoir intersected in the Dorado and Pavo Fields with the Milne Member a secondary reservoir target.

Excellent reservoir quality was encountered while drilling in both the Caley and Milne Members. However, despite there being direct evidence for hydrocarbon shows at Apus-1 over several stratigraphic intervals, a commercial hydrocarbon pool was not intersected. The likely reasons for well failure have been attributed to insufficient hydrocarbons migrating to the prospect, or insufficient retention of hydrocarbons in the structure.

Despite the well result, highly valuable geological information was acquired, which has enhanced the geological understanding of the region.

Renewable Fuels

(Carnarvon 50%)

The development and production of advanced biofuels was identified by Carnarvon as an attractive opportunity to deploy modern technology to produce lower carbon intensity renewable diesel capable of use in currently available machinery, build a profitable, growth orientated business outside of the core oil and gas operations, and source future carbon offsets.

The Company chose renewable diesel (an advanced biofuel) as its growth business because, unlike biodiesel, it can be used as a “drop-in” replacement for petroleum diesel. Renewable diesel is chemically identical to petroleum diesel, but it has a lifecycle carbon intensity of 80 - 90% lower than petroleum diesel. End-users of the fuel would see immediate carbon reductions without having to invest in new capital for alternative energy solutions.

The Company made its first investment into the biofuels sector in July 2021 through the creation of a Joint Venture with Frontier Impact Group under the name FutureEnergy Australia (**FEA**).

Carnarvon’s investment, which consisted of \$2.6 million, would see the Joint Venture move its first biorefinery project to an FID ready state which is planned for early 2023.

The objective of FEA is to establish Australia’s first commercial scale renewable diesel biorefinery utilising waste woody biomass as its feedstock. On success of its first project, FEA plans to scale production capacity to at least 500 million litres annually in Western Australia by 2030.

In March 2022, an exclusive option agreement for the purchase of a 65-Ha parcel of land was obtained near the town of Narrogin, Western Australia. Whilst the project site would only require less than 10% of the land, the size provides growth optionality to expand the operations.

The following month, the Department of Water and Environmental Regulation announced FEA’s Narrogin renewable diesel project was awarded \$2 million from the Clean Energy Future Fund grant. The state government funding, which will be received following FID, would go towards project development and construction costs.

FEA have engaged Technip Energies to commence engineering and design of the Narrogin facility. Technip’s work is expected to be completed at the end of Q3 2022. In parallel, work commenced on both environmental and development approvals, which are expected to be received prior to FID.

Towards the end of the year, FEA secured 75% of its base feedstock requirements with a 10-year plus supply agreement. The balance of the feedstock requirements is planned to be finalised later in 2022.

FEA also held its first community event at Narrogin with strong support from the local community and Shire of Narrogin.



Figure 7: 3D Model of proposed Narrogin biorefinery.



Figure 8: Site visit – Narrogin, Western Australia.

OPERATING AND FINANCIAL REVIEW

Following the end of the period, FEA announced it had signed a Memorandum of understanding with West Australian regional power company, Horizon Power, to progress evaluation of a strategic partnership. This partnership may include investment into multiple renewable diesel projects, offtake, and power purchase agreements.

The project continues to receive strong interest domestically and internationally for renewable diesel offtake. FEA is actively engaging with companies from the mining, construction, fuel distribution and power generation sectors.

Pepper Project (EP509 & TP29)

(Carnarvon 100% and operator)

EP509 and TP29 (**Pepper Project**) are located in the Barrow Sub-basin of the Northern Carnarvon Basin, within State waters. Both permits sit within shallow water depths (less than 50 meters) and lie adjacent to each other, immediately south-west of Barrow Island, offshore Western Australia

The permit was acquired in June 2021 and contains several wells which encountered non-commercial hydrocarbon-bearing intervals. This includes the Pepper-1 well, which intersected a live hydrocarbon column in tight thinly-bedded turbidite sands of the Late Jurassic Dupuy Member within a mapped structural closure. Additionally, net hydrocarbon pay was also recorded in topsets of the Early Cretaceous Lower Barrow Group.

Based on sparse, poor quality 2D seismic data, it is possible the Pepper-1 well was not drilled in a crestal location for reservoir within the turbidite depositional system.

During the year, Carnarvon progressed several studies to predict likely locations for improved reservoir quality. These include seismic reprocessing of pre-existing 2D seismic lines across the permit and investigatory reservoir studies. As this project progressed, it has the potential to provide significant resources to the Company's portfolio.

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 liquids-rich sub-basin containing numerous oil and gas fields. The acquisition of brand new MC3D Cygnus PSDM seismic data has been instrumental for both the AC/P62 and AC/P63 permits, which were previously covered by sparse, poor quality 2D seismic 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 kilometers and 350 meters relief.

During the year, rock physics and acoustic seismic inversion studies were completed over the Permian stratigraphic interval to gain further insights into reservoir variability. With both studies completed Carnarvon has now satisfied all primary work program commitments.

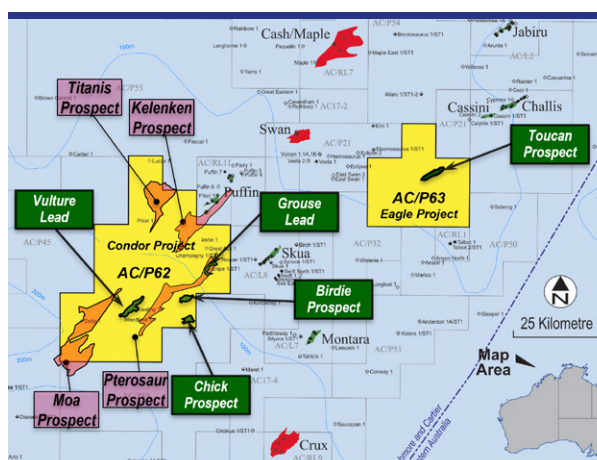


Figure 9: Outline of the AC/P62 and AC/P63 permits including identified prospects and leads.

The technical work on AC/P63 to date has also successfully de-risked the reservoir, presence of oil and the quality of hydrocarbons within 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 kilometers areal extent and 140 meters 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.

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

During the year, Carnarvon reprocessed a small portion of the Onnia 3D seismic survey, which was then merged with the recently acquired MC3D Cygnus PSDM seismic survey. This provides contiguous 3D seismic coverage over the permit. From this, an acoustic 3D seismic inversion project was performed over the permit to gain further insights into reservoir-seal pairs within the Jurassic and deeper stratigraphy.

For both the Condor and Eagle projects, Carnarvon is currently seeking farm-in interest to progress the exciting prospects both permits contain.

Buffalo Project (TL-SO-T 19-14 PSC)

(Carnarvon 100% and operator)

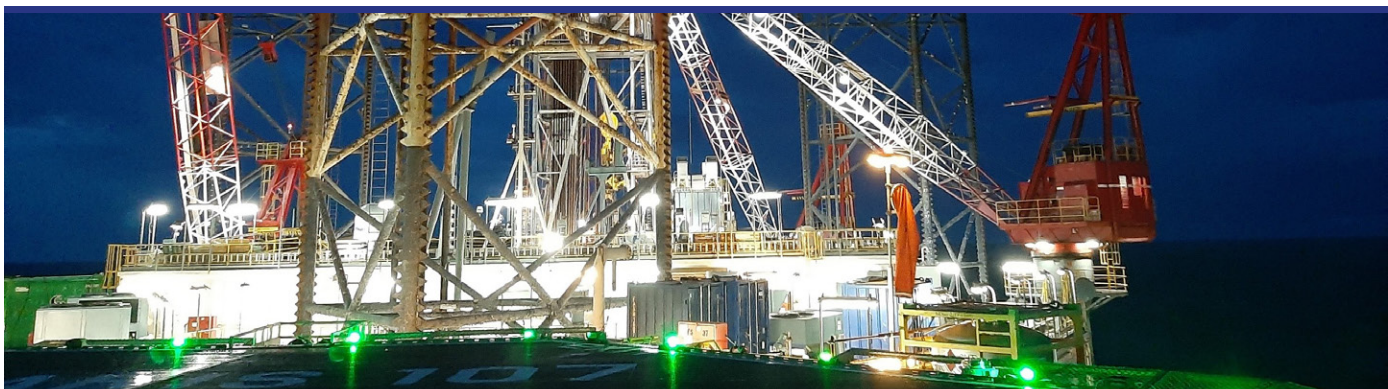
On 31 December 2021, the Company, along with its 50% Joint Venture partner at that time, Advance Energy, spudded the Buffalo-10 appraisal well with Carnarvon as operator. The well aimed to test an interpreted undrilled structural attic within the Elang reservoir of the Buffalo Field, highlighted by Full-Waveform-Inversion ("FWI") seismic reprocessing of the Legacy 3D seismic datasets.

Upon entering the reservoir, the top Elang Formation was encountered 80 metres low to prognosis which was outside of the pre-drill range of expectation. The result subsequently disproved the presence of an unproduced structural attic. Wireline logging recorded an approximate 12 metre gross oil column within the Elang Formation, with the oil column subsequently deemed residual and uncommercial.

This demonstrated that the seismic processing techniques employed on this project did not resolve the underlying seismic velocity distortion or imaging resolution issues that are present over this field.

While the results from the Buffalo-10 well are disappointing, Carnarvon is pleased to report that its first offshore well as operator was drilled safely and without environmental incident which is a credit to the operations team.

Following the Buffalo-10 well outcome, Carnarvon has requested to relinquish the TL-SO-T 19-14 PSC area to the regulator in Timor-Leste. Prior to the end of the financial period, Carnarvon and Advance Energy terminated the Joint Venture agreement, meaning Carnarvon retains a 100% interest in the PSC until the PSC is formally relinquished.



OPERATING AND FINANCIAL REVIEW

Taurus Project (WA-523-P)

(Carnarvon 100% and operator)

The WA-523-P exploration permit was awarded to Carnarvon in May 2016 and sits adjacent to Carnarvon's Buffalo permit in the Bonaparte Basin, albeit in Australian waters. Carnarvon's exploration rationale for WA-523-P was to identify attractive prospects and leads within tie-back distance of the Buffalo Field which could then be linked via subsea tie-back. Due to the outcome of Buffalo-10 well, the Company does not intend to progress the identified prospects within WA-523-P as stand-alone targets and is preparing to surrender this permit.



Outtrim Project (WA-155-P)

(Carnarvon 100% and operator)

The Outtrim project, WA-155-P, is in the Exmouth Sub-Basin, within the Carnarvon Basin of the North-West Shelf of Australia. The Outtrim permit contains three graticular blocks, one of which contains the Outtrim oil discovery, with a north-east graticular block containing the Late Triassic Palmerston gas prospect; a fault bounded late Triassic structure which sits on the eastern side of the Alpha Arch.

An 18 month Suspension and Extension was granted and, as a result, Permit Year 3 will now end on the 13th December 2022. Permit Year 4 and 5 consist of the drilling of a further well and associated planning and analysis. As the Company is focused on delivering the Dorado development and progressing its high-graded exploration targets, Carnarvon is preparing to divest its equity in this permit.

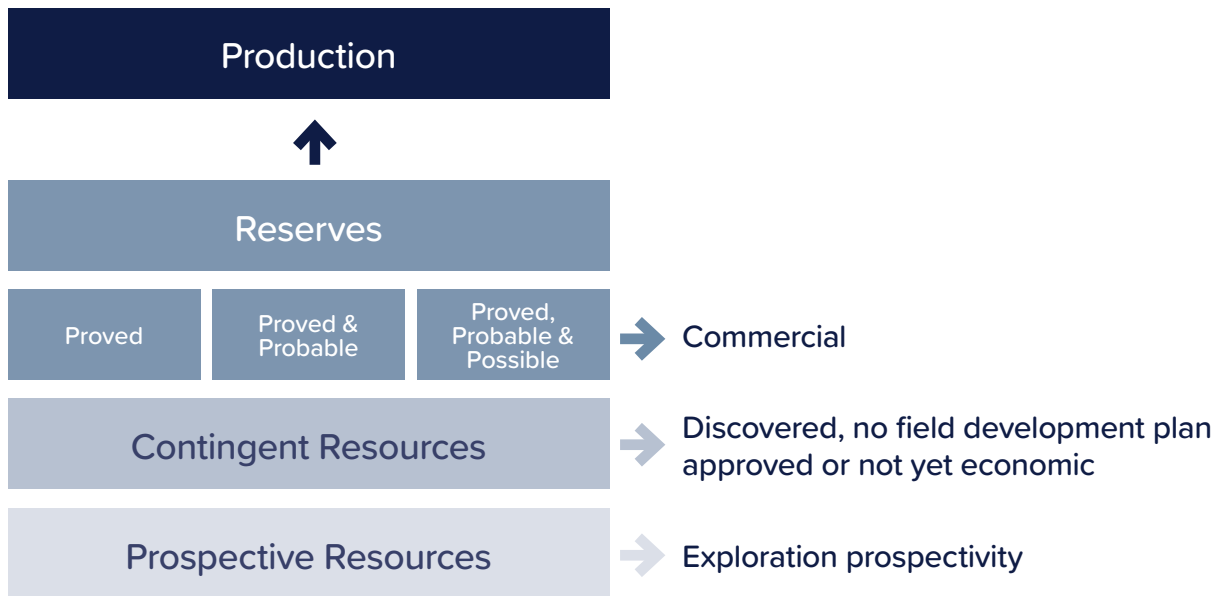
Labyrinth Project (WA-521-P)

(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.

Despite the technical work demonstrating that the WA-521-P exploration permit is prospective for liquid hydrocarbons, the Company does not consider these prospects as core exploration targets due to their critical risks of hydrocarbon source and migration, which requires definitive data from a well to reduce this risk.

On this basis, the Company submitted a request to surrender the WA-521-P permit to the regulator, with consent to surrender received following the end of the period.



RESERVE ASSESSMENT

Petroleum Resource Classification, Categorisation and Definitions

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

Reserves

Reserves represent that part of resources which are commercially recoverable and have been justified for development, while contingent and prospective resources are less certain because some commercial or technical hurdle must be overcome prior to there being confidence in the eventual production of the volumes.

Carnarvon does not yet have any reported reserves.

Contingent Resources

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

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

OPERATING AND FINANCIAL REVIEW

Gross Contingent Resources (100%)

Gross at 30 June 2021		Light Oil and Condensate			Free & Associated Gas			Barrels of Oil Equivalent		
		MMSTB	MMSTB	MMSTB	BSCF	BSCF	BSCF	MMBOE	MMBOE	MMBOE
		1C	2C	3C	1C	2C	3C	1C	2C	3C
	Permit									
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	TL-SO-T 19-14	15	31	48	-	-	-	15	31	48
Total		122	236	413	571	1,080	1,938	248	477	844

Technical Revision		Light Oil and Condensate			Free & Associated Gas			Barrels of Oil Equivalent		
		MMSTB	MMSTB	MMSTB	BSCF	BSCF	BSCF	MMBOE	MMBOE	MMBOE
		1C	2C	3C	1C	2C	3C	1C	2C	3C
	Permit									
Dorado	WA-437-P	-	-	-	-	-	-	-	-	-
Pavo	WA-438-P	26	43	62	6	11	17	27	45	65
Roc	WA-437-P	-	-	-	-	-	-	-	-	-
Phoenix South	WA-435-P	-	-	-	-	-	-	-	-	-
Phoenix	WA-435-P	-	-	-	-	-	-	-	-	-
Buffalo	TL-SO-T 19-14	15	31	48	-	-	-	15	31	48
Total		11	12	14	6	11	17	12	14	17

Gross at 30 June 2022		Light Oil and Condensate			Free & Associated Gas			Barrels of Oil Equivalent		
		MMSTB	MMSTB	MMSTB	BSCF	BSCF	BSCF	MMBOE	MMBOE	MMBOE
		1C	2C	3C	1C	2C	3C	1C	2C	3C
	Permit									
Dorado	WA-437-P	86	162	285	367	748	1,358	176	344	614
Pavo	WA-438-P	26	43	62	6	11	17	27	45	65
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	TL-SO-T 19-14	-	-	-	-	-	-	-	-	-
Total		133	249	428	577	1,091	1,955	260	491	862

Net Contingent Resources (Carnarvon's Share)

Net at 30 June 2022		Light Oil and Condensate			Free & Associated Gas			Barrels of Oil Equivalent		
		MMSTB	MMSTB	MMSTB	BSCF	BSCF	BSCF	MMBOE	MMBOE	MMBOE
		1C	2C	3C	1C	2C	3C	1C	2C	3C
	Permit									
Dorado	WA-437-P	17	32	57	73	150	272	35	69	123
Pavo	WA-438-P	8	13	19	2	3	5	8	13	19
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	TL-SO-T 19-14	-	-	-	-	-	-	-	-	-
Total		29	54	92	116	219	393	54	103	179



Notes on Petroleum Resource Estimates and Competent Persons Statement

Unless otherwise stated, all petroleum resource estimates are quoted as at 30 June 2022 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 30 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 a Competent Person 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 loss of \$53,753,000 for the financial year ending 30 June 2022 (2021: profit: \$17,136,000).

Carnarvon's balance sheet remains strong with cash and cash equivalents of \$112,424,000 (2021: \$98,436,000), with no debt and minimal commitments going forward.

During the financial year, Carnarvon successfully raised \$67,194,000 after fees through a placement of 234,806,987 new shares to professional and institutional investors. The proceeds of the placement contributed to the strong current financial position and are expected to contribute to the Dorado field liquids development.

Following the completion of the Buffalo-10 well, Carnarvon recognised a \$30,120,000 loss in relation to its investment in the Buffalo Joint Venture which primarily included the write-off of previously capitalised exploration costs in relation to the Buffalo-10 well. As the Company was free carried for the first US\$20 million of the Buffalo-10 well costs, this does not reflect the cash outlay by the Company during the period and includes impairment of the accounting fair value adjustment of \$23,635,000 that was recognised in the prior year.

In July 2021, Carnarvon formed the FutureEnergy Australia Joint Venture with Front Impact Group, investing \$2,592,000 to fund a biorefinery project. The Company recognised its 50% share of the loss of \$513,000 incurred by the Joint Venture during the year as the Joint Venture commenced Front-End Engineering and Design (**FEED**) work for its first biorefinery.

During the period, the Company invested \$38,598,000 on exploration and evaluation assets. These costs were primarily in relation to the drilling costs for the Pavo-1 and Apus-1 exploration wells, acquisition of 3D seismic within the Bedout basin permits and FEED activities for the Dorado development.

The Company also wrote off \$10,724,000 (2021: \$0) of exploration expenditure which was previously capitalised. This expenditure related to the TL-SO-T 19-14 production sharing contract and the WA-523-P, WA-521-P, WA-155-P, AC/P62 and AC/P63 permits.

This prudent accounting position was taken because it is not certain that these costs will be recovered, particularly as the Company focuses its resources on the proven and highly prospective Bedout Sub-basin, which contains the Dorado development, the recent Pavo oil discovery and a significant number of attractive prospects.

During the financial year there was an unrealized gain on foreign exchange of \$3,800,000 (2021: loss \$1,224,000) due to the effect of a depreciation of AUD against the Carnarvon's USD cash and financial assets.

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

RISK MANAGEMENT

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

Carnarvon's risk management framework is overseen by the Risk, Governance and Sustainability Committee. 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.

MATERIAL BUSINESS RISKS

Safety, Environment and Sustainability:

Health, Safety and Environment

Oil and gas exploration, development and production activities involve a variety of risks which may impact the health and safety of Carnarvon's people, communities, and the environment. These impacts could also damage Carnarvon's reputation or lead to fines and other penalties.

Carnarvon's projects are subject to various laws and regulations regarding the environment. Oil and gas exploration, development and production can be potentially environmentally hazardous giving rise to substantial costs for environmental clean-up and rehabilitation.

Carnarvon maintains high standards for health, safety, and environmental ("HSE") management. HSE risks are embedded in Carnarvon's operations and risk management framework and actively managed. Appropriate insurance is also maintained, and regularly reviewed to ensure adequate coverage.

Where Carnarvon does not directly manage exploration and development activities, Carnarvon ensures its operating partners maintain equally high standards for HSE management.

Climate Change

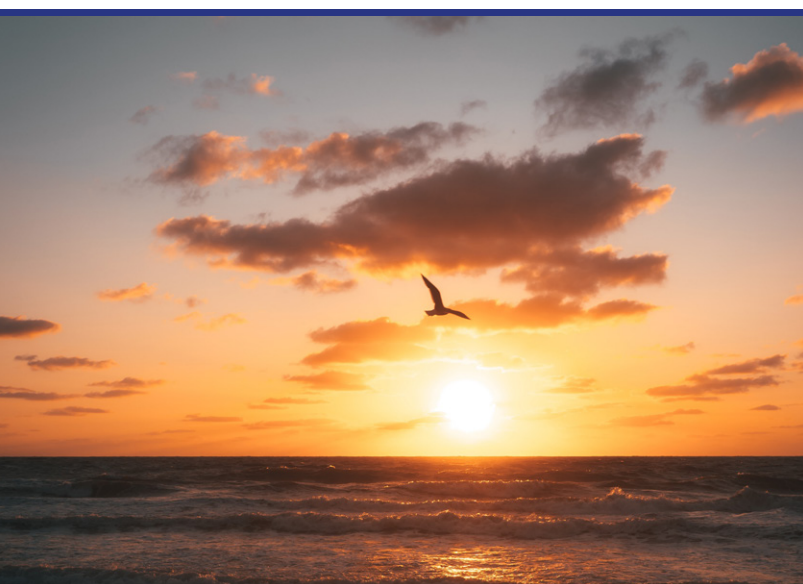
Climate change and management of carbon emissions may affect Carnarvon's operations, markets for oil and gas and the funding and insuring of projects. Potential risks arising from physical changes caused by climate change include increased severe weather events and rising sea levels which may impact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

Carnarvon recognises climate-related risks and the need for these to be managed effectively. As a result, the Company actively monitors current and potential areas of climate change risk.

Carnarvon has committed to net zero carbon emissions from its operations by 2050, if not earlier. Carnarvon currently offsets all its Scope 2 emissions, which at this time are derived from Carnarvon's head office.

In terms of future developments, like Dorado, Carnarvon is committed to working with its Joint Venture partners to reduce emissions from the project facilities and will continue to develop appropriate plans to offset emissions from future projects as they mature.

Carnarvon is also seeking to diversify its portfolio by potentially developing lower carbon intensive assets which provide appropriate returns to shareholders. This includes Carnarvon's Joint Venture, FEA, to develop a renewable diesel business in Western Australia. Carnarvon is also examining the potential of other renewable biofuels, including sustainable aviation and marine fuels, as well as other 'new energy' opportunities.



OPERATING AND FINANCIAL REVIEW

Economic and Financial Risks:

Oil Price

The financial performance, future value and growth of Carnarvon is dependent upon the prevailing oil price. 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 currently 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.

Additional information on financial risks is contained in Note 25 to the Financial Statements.

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 expenditure on exploration, appraisal, and potential development activities. Carnarvon's business and the development of projects 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 activity 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 business arrangement employed to share the benefits, costs and risks 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 its activities, including a development project. Failure to agree on these matters may have a material adverse effect on Carnarvon's business.

To the extent that Carnarvon is not the operator of a joint venture, it is reliant on the efficient and effective management of the company acting as operator. The objectives and strategies of the operator 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 in the joint venture agreement.

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 agreement. If Carnarvon fails to meet these obligations it may experience a dilution or loss (via a buy-out) of its

interest in the joint venture or may not gain the benefit of joint venture 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 industry standard joint operating agreements (JOA), 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 2018 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, technical issues and production decreases. A significant poor development outcome could result in material adverse impacts to reserve and production forecasts, future revenues, and operating costs.

OPERATING AND FINANCIAL REVIEW

Carnarvon mitigates these risks through the careful selection of joint venture partners, ensuring the utilisation of high quality and experienced contractors throughout the development process, conducting assurance and other reviews during development, as well as comprehensively assessing all developments prior to making any commitment to participate.

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

Carnarvon monitors changes in relevant regulations and engages with regulators and industry bodies to ensure the impact of policy changes are understood, and the company continues to comply with all regulatory requirements.

Foreign Operations

Some countries within which Carnarvon transacts in 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 could have a material impact on the investment and security environment within those countries which could impact the assets held by Carnarvon.

Carnarvon closely monitors political developments and events in the countries in which it transacts. Carnarvon engages with stakeholders in those countries and maintains local offices which are staffed by in-country personnel who can liaise directly with regulators and provide appropriate local expertise.

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.

Carnarvon maintains clear and regular updates on strategy and business planning to provide clarity on the company's future plans. Guidance and opportunities are provided for staff to further their careers, and staff training and development seeks to ensure individual development goals align with Carnarvon's strategy. Succession planning for key management personnel and other key employees is also undertaken on a periodic basis.



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
EP509	Carnarvon	100%	-	-	G & G studies
TP29	Carnarvon	100%	-	-	G & G studies
WA-521-P	Roebuck	100%	-	-	Relinquishment
WA-523-P	Bonaparte	100%	-	-	Relinquishment
WA-435-P	Roebuck	20%	Santos Limited ⁱ	80%	G & G studies
WA-436-P	Roebuck	30%	Santos Limited ⁱ	70%	G & G studies
WA-437-P	Roebuck	20%	Santos Limited ⁱ	80%	G & G studies
WA-438-P	Roebuck	30%	Santos Limited ⁱ	70%	G & G studies, appraisal
WA-64-L	Roebuck	20%	Santos Limited ⁱ	80%	Development and production
WA-155-P	Carnarvon	100%	-	-	G & G studies
Timor-Leste					
TL-SO-T 19-14 PSC	Bonaparte	100%	-	-	Relinquishment

Note:

ⁱ Denotes operator where Carnarvon is non-operator partner.

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 2022, and the auditor's report thereon.

Carnarvon Energy 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.

Mr Foster 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.

Mr Foster'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 Mr Foster has not served as a director of any other listed company.



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.



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.

DIRECTORS' REPORT



Debra Bakker

Non-Executive Director

MAppFin., BBus (FinAcc), Grad Dip FINSIA, GAICD

Appointed as director on 5 October 2020

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 Alex Doering



Mr Gavan Sproule



Mr Thomson Naude

Company Secretary

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 Energy.

Mr Gavan Sproule was appointed as Joint company secretary in March 2022. Mr Sproule is a Fellow of the Governance Institute of Australia and General Counsel at Carnarvon Energy.

Mr Thomson Naude was appointed Company Secretary in November 2013 and retired as Company Secretary in March 2022. Mr Naude is a qualified Chartered Accountant, a member of Governance Institute of Australia and the Chief Financial Officer at Carnarvon Energy.

DIRECTORS' REPORT

Directors' meetings

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

	(a)	(b)
WA Foster	11	11
AC Cook	11	11
P Moore	11	11
SG Ryan	11	11
D Bakker	11	11

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

(b) Number of meetings attended

Audit Committee

Names and qualifications of Audit and Risk Committee members

The Committee is to include at least 3 members. Current members of the committee are Ms Bakker (Chair of the Committee) Dr Moore and Mr Ryan. Qualifications of Audit and Risk Committee members are provided in the Directors section of this directors' report.

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)
D Bakker	2	2
P Moore	2	2
SG Ryan	2	2

(a) Number of meetings held during period of office

(b) Number of meetings attended

Risk, Governance and Sustainability Committee

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

The RGS Committee is to include at least 3 members. Current members of the committee are Dr Moore (Chair of the 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	4	4
D Bakker	4	4
SG Ryan	4	4

(a) Number of meetings held during period of office

(b) Number of meetings attended

DIRECTORS' REPORT

2022 REMUNERATION IN BRIEF FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (“FY22”)

FY22 remuneration outcomes at a glance

KMP Fixed Remuneration	Benchmark increases for senior executives	Total fixed remuneration (TFR) increased from the previous year according to industry benchmarks.
Short Term Incentive (STI)	No STI awarded to KMP during the year.	There was no STI awarded during the year in relation to FY22 KPIs as the Company’s share price did not exceed the ASX Energy Index share price performance gate for the period. KMP (other than CEO) were granted 403,110 performance rights on 1 July 2021 and 544,931 performance rights were granted to the CEO on 12 November 2021 following shareholder approval at the AGM. These performance rights represent the 12-month deferred equity component for the FY21 STI award, the terms for which were not agreed and communicated to participants until after 30 June 2021 and hence they have been recognised in FY22.
Long Term Incentive (LTI)	No performance rights vested during the year.	No performance rights vested during the year. KMP (other than the CEO) were granted 1,586,560 LTI performance rights on 1 July 2021 and 2,179,724 LTI performance rights were granted to the CEO on 12 November 2021 following approval at the AGM. 2,262,710 LTI performance rights were granted and issued to KMP (other than the CEO) subsequent to the year end and 2,893,092 LTI performance rights were awarded to the CEO subsequent to the year-end which are subject to shareholder approval at the AGM to be held on 18 November 2022. These LTI performance rights 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 FY21 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 31 to 43. 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 realised by executive KMP for FY22, which the company believes is useful to shareholders, The amounts include cash salary 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	2022			2021			
	Salary \$	Super \$	Total cash \$	Salary \$	Super \$	STI Cash \$	Total cash \$
A Cook <i>Managing Director & Chief Executive Officer</i>	591,791	16,843	608,634	606,288	35,381	124,414	766,083
P Huizenga <i>Chief Operating Officer</i>	533,136	23,030	556,166	550,286	34,037	58,283	642,606
T Naude <i>Chief Financial Officer</i>	334,164	26,447	360,611	314,125	27,434	33,752	375,311
Total	1,459,091	66,320	1,525,411	1,470,699	96,852	216,449	1,784,000

REMUNERATION REPORT (AUDITED) FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

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 2022. It has been audited as required by section 308(3C) of the *Corporations Act* and forms part of the Directors' Report.

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 FY22

Name	Position	Period as KMP during the year
Executive KMP		
A Cook	Managing Director & Chief Executive Officer (CEO)	All of FY22
P Huizenga	Chief Operating Officer	All of FY22
T Naude	Chief Financial Officer	All of FY22
Non-executive Directors		
W Foster	Independent Chairman	All of FY22
P Moore	Non-executive Director	All of FY22
G Ryan	Non-executive Director	All of FY22
D Bakker	Non-executive Director	All of FY22

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (CONT'D)

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. The Board has the discretion to approve the settlement of the STI performance rights in cash or equity.
- 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 2022 financial year were Mr Ryan (Chairman of Remuneration and Nomination Committee), Dr Moore and Ms Bakker. 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	1	1
PS Moore	1	1
D Bakker	1	1

a) Number of meetings held during period of office.

b) Number of meetings attended.

REMUNERATION REPORT (AUDITED) (CONT'D)

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. The Remuneration and Nominations Committee engaged BDO Australia during the year to perform a review and recommendation on the Company's overall remuneration structure including KMP remuneration. The fee paid for the review was \$14,600. The Board utilised a large and reputable organisation to perform the independent review which was conducted in direct communication with the Chair of the Remuneration and Nomination Committee, whose remuneration was not subject of the review. On this basis, the Board is satisfied that the remuneration recommendation was made free from undue influence by the member or members of the key management personnel to whom the recommendation relates.

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 and an additional payment of 3 months' remuneration. 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.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (CONT'D)

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) – annual cash and 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) – 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 FY18 – FY22:

	FY18	FY19	FY20	FY21	FY22
Share price at year-end	\$0.15	\$0.60	\$0.195	\$0.25	\$0.195
Basic earnings/(loss) per share	\$0.14	\$(0.64)	\$(0.26)	\$1.09	\$(3.31)

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 mix¹

Position	Performance Based Remuneration			Total 'at risk'
	Fixed Remuneration	STI	LTI	
	%	%	%	%
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 (AUDITED) (CONT'D)

Fixed remuneration for the year

Total fixed remuneration (TFR) of KMP is provided in Table 1 on Page 41. Page 41 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, 50% in performance rights and is offered to senior executives at the discretion of the Board based on company performance and performance against objectives. Once the performance rights have vested, the Board has the discretion to approve the settlement of the STI performance rights in cash or equity.

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 may also have individual KPIs which are linked to the below Company KPIs to reflect their particular responsibilities to each KPI. The KPIs are chosen as they are value catalysts which are linked to the Company's strategic objectives. For the reporting period, the performance measures comprised:

STI Measures	Weighting
Company KPI's	80%
Dorado Pre FID Financing	20%
Bedout exploration drilling	15%
Buffalo development FID	10%
Buffalo drilling	5%
Dorado FID	5%
Exploration permit farm out	5%
Other Corporate	5%
New Ventures	10%
Other KPI's, eg growth, people, culture, governance & environment	5%
Individual KPI's	20%

Refer to Table 5 for more information.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (CONT'D)

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 CEO's 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 50% in cash and 50% in performance rights with a vesting period of 12 months provided the participants are employed by the company over the vesting period and as at the vesting date. 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 did not exceed the change in the ASX Energy Index, and accordingly no STI was awarded.

Carnarvon share price (ASX:CVN) at 1 July 2021	26.5 cents per share
Carnarvon share price (ASX:CVN) at 30 June 2022	19.5 cents per share
Change in share price over the period	-26.4%
ASX Energy Index (ASX:XEJ) at 1 July 2021	8,017
ASX Energy Index (ASX:XEJ) at 30 June 2022	10,026
Change in ASX Energy Index over the period	25.1%

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

KMP	STI Awarded	STI Forfeited
Adrian Cook	-	100%
Mr Huizenga	-	100%
Mr Naude	-	100%

There was no STI award for FY22 as the change in Carnarvon's share price over the financial year did not exceed the change in the ASX Energy Index.

REMUNERATION REPORT (AUDITED) (CONT'D)

Despite there being no award during the year, the outcomes of the company related performance conditions are outlined in Table 5.

Table 5: Outcome of FY22 STI Company KPIs:

STI Measure	Description	STIP weight (%)	STI Performance and score
Dorado pre FID Financing	Dorado Financing completed before FID with funding covering CVN's full share of its development capex (unless the Board resolves not to have full funding at FID).	20%	Score: KPI not achieved by 30 June 2022.
Bedout exploration drilling	Successful drilling outcomes for Pavo or Apus, resulting in the discovery of hydrocarbons with a reasonable likelihood of being commercial	15%	Score: KPI achieved.
Buffalo development FID	Advanced development plan prepared by 30 June 2022 with milestones to target FID by 31 December 2022 (provided Buffalo-10 has commercial volumes of oil)	10%	Score: KPI not achieved.
Buffalo drilling	Buffalo Drilling – Completed safely, and within 10% of AFE before 31 December 2021	5%	Score: KPI not achieved.
Dorado FID	Dorado FID taken by 30 June 2022	5%	Score: KPI not achieved.
Exploration permit farm out	Farm-out of at least one permit interest by 30 June 2022 or by this time complete a value adding commercial deal on a permit(s)	5%	Score: KPI not achieved.
Other Corporate	Confidential	5%	Score: KPI not achieved.
New Ventures	Non-hydrocarbon new venture implementation by 30 June 2022 (stretch 31 December 2021)	5%	Goal achieved with renewable diesel joint venture. Score: KPI achieved.
New Ventures	Secured cash flow stream from any sources (oil & gas, alternative energies) by 30 June 2022 where asset capable of generating >A\$2m p.a. in EBITDAX	5%	Score: KPI not achieved.
Other KPI's, Sustainability, growth, people, culture, governance & environment	Continue build and implementation of ESG and other policies by 30 June 2022 to ensure CVN clean safe operation Buffalo and other drilling and production facilities.	5%	Score: KPI achieved.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (CONT'D)

STI performance rights issued

Whilst there was no STI award during the year in relation to FY22 performance, KMP were granted 403,110 performance rights on 1 July 2021 and 544,931 performance rights on 12 November 2021 (following approval of grant of performance to Mr Cook at the Company's 2021 AGM) based on the achievement of FY21 KPI's. As the terms of the award were not agreed and communicated until 1 July 2021 (and 12 November 2021 for the CEO) and therefore the performance rights were included in the FY22 remuneration report. Subsequent to 30 June 2022, the Board exercised its discretion to settle these awards in cash and they were exercised on 5 July 2022 and settled in cash on 18 July 2022.

LONG TERM INCENTIVE (LTI)

What is the LTI?	<p>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).</p> <p>Carnarvon offers LTIs to KMP at the discretion of the Board.</p>
How does the LTI link to Carnarvon's key purpose?	<p>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:</p> <ul style="list-style-type: none">• 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?	<p>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 (2022: 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 the Company's closing share price on 30 June.</p>
What equity based grants are given and are there plan limits?	<p>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.</p>

REMUNERATION REPORT (AUDITED) (CONT'D)

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, calculated using the closing share prices at a testing date of 30 June.

The participants must also be employed by the Company over the vesting period and as at the vesting date.

The vesting schedule of 50% of the performance rights is 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, Strike Energy, Warrego Energy.

The vesting schedule of 50% of the performance rights is 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%

Why choose these Performance conditions?

Relative TSR is an appropriate performance hurdle because it ensures a proportion of each participants remuneration is 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.

KMP (other than CEO) were granted 1,586,560 LTI performance rights on 1 July 2021 and 2,179,724 LTI performance rights were granted to the CEO following approval at the AGM on 12 November 2021 on the basis outlined in the tables above. KMP (other than CEO) were also awarded 2,262,710 LTI performance rights on 1 July 2022 on the basis outlined in the tables above. The CEO was awarded 2,893,092 LTI performance rights on 1 July 2022, which are subject to shareholder approval at the AGM to be held on 18 November 2022.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (CONT'D)

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 an independent 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.

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 \$465,000, 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 FY22 are set out in Table 6.

Table 6: FY22 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 REPORT (AUDITED) (CONT'D)

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

Name	Short term benefits		Post-employment	Share-based payments	Long term benefits		Total (\$)	Total at risk %	Total issued in equity %
	Salary and fees (\$)	Short term cash bonus (\$)	Superannuation contributions (\$)	Performance Rights (\$) ^{6,7}	Annual Leave (\$) ⁵	Long service leave (\$) ⁵			
Directors									
<i>Non-Executive</i>									
Mr WA Foster¹ (Chairman)									
2022	\$150,000	-	-	-	-	-	\$150,000	-	-
2021	\$133,905	-	-	-	-	-	\$133,905	-	-
Mr SG Ryan									
2022	\$105,000	-	-	-	-	-	\$105,000	-	-
2021	\$105,000	-	-	-	-	-	\$105,000	-	-
Mrs D Bakker²									
2022	\$105,000	-	-	-	-	-	\$105,000	-	-
2021	\$76,694	-	-	-	-	-	\$76,694	-	-
Dr P Moore³									
2022	\$105,000	-	-	-	-	-	\$105,000	-	-
2021	\$102,500	-	-	-	-	-	\$102,500	-	-
Mr PJ Leonhardt (Retired)⁴									
2022	-	-	-	-	-	-	-	-	-
2021	\$54,713	-	-	-	-	-	\$54,713	-	-
<i>Executive</i>									
Mr AC Cook (Chief Executive Officer)									
2022	\$591,791	-	\$16,843	\$523,134	\$42,616	-\$10,766	\$1,163,618	45.0%	-
2021	\$606,288	\$124,414	\$35,381	-	-\$8,400	-\$11,643	\$746,040	16.7%	-
Other Executives									
Mr PP Huizenga (Chief Operating Officer)									
2022	\$533,136	-	\$23,030	\$190,207	\$38,804	\$2,594	\$787,771	24.1%	-
2021	\$550,286	\$58,283	\$34,037	-	-\$3,215	-\$1,040	\$638,351	9.1%	-
Mr TO Naude (Chief Financial Officer)									
2022	\$334,164	-	\$26,447	\$111,239	\$23,480	\$4,416	\$499,746	22.3%	-
2021	\$314,125	\$33,752	\$27,434	-	-\$3,071	-\$6,255	\$365,984	9.2%	-
Total compensation: KMP									
2022	\$1,924,091	-	\$66,320	\$824,580	\$104,900	-\$3,756	\$2,916,135	28.3%	-
2021	\$1,943,511	\$216,448	\$96,852	-	-\$14,685	-\$18,938	\$2,223,186	9.7%	-

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

¹ Mr Foster was appointed as the chairman on 11 November 2020.

² 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.

³ Dr Moore was appointed as Chair of the Risk, Governance and Sustainability Committee on 11 December 2020.

⁴ Mr Leonhardt retired as a non-executive director and chairman on 11 November 2020.

⁵ These amounts represent the leave entitlement accrual for the year. The annual leave benefits have been included as long term benefits as they are expected to be utilised over a period greater than 12 months.

⁶ KMP were granted 948,041 STI performance rights during the year which were exercised and settled in cash in the amount of \$184,868 subsequent to year-end.

⁷ KMP were granted 3,766,284 LTI performance rights during the year and 2,262,710 LTI performance rights subsequent to year-end.

DIRECTORS' REPORT

REMUNERATION REPORT (AUDITED) (CONT'D)

Ordinary shares held by key management personnel

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

2022	Held at 1 July 2021	Net acquired/ (sold) on market	Award under Employee Share Plan	Received on exercise of options	Held at 30 June 2022
Directors					
WA Foster	1,425,938	-	-	-	1,425,938
AC Cook	15,938,797	-	-	-	15,938,797
P Moore	964,232	-	-	-	964,232
SG Ryan	305,221	-	-	-	305,221
D Bakker	304,774	270,000	-	-	574,774
Other Executives					
PP Huizenga	12,076,196	-	-	-	12,076,196
TO Naude	4,074,357	(55,000)	-	-	4,019,357

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:

2022	Held at 1 July 2021	Granted as compensation	Employee Share Plan cancellations	Exercised	Held at 30 June 2022
Directors					
WA Foster	-	-	-	-	-
AC Cook	12,945,592	-	-	-	12,945,592
P Moore	-	-	-	-	-
SG Ryan	-	-	-	-	-
Other Executives					
PP Huizenga	11,976,196	-	-	-	11,976,196
TO Naude	3,992,512	-	-	-	3,992,512

Performance rights - LTIP held by key management personnel

2022	Held at 1 July 2021	Granted	Exercised	Held at 30 June 2022	Vested and exercisable at 30 June 2022	Vested and unexercisable at 30 June 2022
Directors						
WA Foster	-	-	-	-	-	-
AC Cook	-	2,179,724	-	2,179,724	-	-
P Moore	-	-	-	-	-	-
SG Ryan	-	-	-	-	-	-
Other Executives						
PP Huizenga	-	1,001,092	-	1,001,092	-	-
TO Naude	-	585,468	-	585,468	-	-
Total	-	3,766,284	-	3,766,284	-	-

REMUNERATION REPORT (AUDITED) (CONT'D)

Performance rights - STIP held by key management personnel

2022	Held at 1 July 2021	Granted	Exercised	Held at 30 June 2022	Vested and exercisable at 30 June 2022	Vested and unexercisable at 30 June 2022
Directors						
WA Foster	-	-	-	-	-	-
AC Cook	-	544,931	-	544,931	544,931	-
P Moore	-	-	-	-	-	-
SG Ryan	-	-	-	-	-	-
Other Executives						
PP Huizenga	-	255,279	-	255,279	255,279	-
TO Naude	-	147,831	-	147,831	147,831	-
Total	-	948,041	-	948,041	948,041	-

The above STIP performance rights were exercised on 5 July 2022 and settled in cash at the Board's discretion on 18 July 2022.

Details of performance rights granted to KMP during the year ended 30 June 2022 are:

KMP	Instrument	Grant date	Expiry date	Vesting date	Fair value per right \$	Exercise price	Number of performance rights granted	Number of performance rights vested	Maximum value to be recognised in future periods \$
A Cook	Performance rights - LTIP	12 November 2022	1 July 2032	30 June 2025	0.24	-	2,179,724	-	348,755
A Cook	Performance rights - STIP ¹	12 November 2022	1 July 2032	30 June 2022	0.33	-	544,931	544,931	-
P Huizenga	Performance rights - LTIP	1 July 2022	1 July 2032	30 June 2025	0.19	-	1,001,092	-	79,499
P Huizenga	Performance rights - STIP ¹	1 July 2022	1 July 2032	30 June 2022	0.26	-	255,279	255,279	-
T Naude	Performance rights - LTIP	1 July 2022	1 July 2032	30 June 2025	0.19	-	585,468	-	46,494
T Naude	Performance rights - STIP ¹	1 July 2022	1 July 2032	30 June 2022	0.26	-	147,831	147,831	-
Total							4,714,325	948,041	474,748

¹ The above STIP performance rights were exercised on 5 July 2022 and settled in cash at the Board's discretion on 18 July 2022.

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:

<u>Name</u>	<u>Ordinary Shares</u>
WA Foster	1,425,938
AC Cook	15,938,797
P Moore	964,232
SG Ryan	305,221
D Bakker	574,774

Diversity

For the year ended 30 June 2022, 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 2022 financial year:

2022 Measurable objectives	Progress
Aim to have not less than 30% of the directors of each gender	Female Board representation in 2022 was 20% (2021: 20%).
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 2022 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 2022.

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 (2021: Nil).

Auditor's independence declaration

The auditor's Independence Declaration under Section 307C of the Corporations Act is set out on page 47 and forms part of the directors' report for the financial year ended 30 June 2022.

Principal activities

During the course of the 2022 financial year the Group's principal activities continued to be directed towards oil and gas exploration, development and production.

Identification of independent directors

The independent directors are identified in the Company's Corporate Governance Statement. The Corporate Governance Statement is available on Carnarvon Energy's website at: www.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 2022 is set out on page 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

On 1 July 2022, the Company awarded 4,528,782 performance rights to KMP (other than the CEO) and other employees under the company's performance rights plan.

On 18 July 2022, the Company cancelled and settled in cash 948,041 vested performance rights relating to the FY21 short term incentive plan, following the exercise of the performance rights on 5 July 2022.

On 15 August 2022, the regulator consented to the surrender of the WA-521-P permit by the Company.

Other than above, there is no other matters or circumstance has arisen since 30 June 2022 that in the opinion of the directors has significantly affected, or may significantly affect in future financial years:

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

DIRECTORS' REPORT

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, 31 August 2022

AUDITOR'S INDEPENDENCE DECLARATION



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

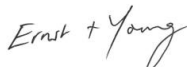
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Auditor's independence declaration to the directors of Carnarvon Energy Limited

As lead auditor for the audit of the financial report of Carnarvon Energy Limited for the financial year ended 30 June 2022, 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;
- b) No contraventions of any applicable code of professional conduct in relation to the audit; and
- c) No non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

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



Ernst & Young



T S Hammond
Partner
31 August 2022

CORPORATE GOVERNANCE STATEMENT

The Board is committed to achieving and demonstrating the highest standards of corporate governance. As such, Carnarvon Energy 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 2022 is dated as at 30 June 2022 and was approved by the Board on 31 August 2022. The Corporate Governance Statement is available on Carnarvon Energy's website at www.carnarvon.com.au/about-us/corporate-governance/.

CONSOLIDATED INCOME STATEMENT AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2022

	Notes	Consolidated	
		2022 \$000	2021 \$000
Other income	2	336	492
Foreign exchange gain/(loss)		3,800	(1,244)
Gain on loss of control of subsidiary		-	23,635
Administrative expenses		(2,988)	(2,429)
Movement in fair value of financial assets	8	(525)	302
Directors' fees		(465)	(473)
Employee benefits expense	20(a)	(2,597)	(1,021)
New venture and advisory costs		(2,098)	(2,049)
Exploration expenditure written off	12	(10,724)	-
Loss on disposal of financial assets		(26)	-
Share of loss of Joint venture	14	(30,633)	(77)
Impairment of investment in joint venture	14	(7,833)	-
(Loss)/gain before income tax		(53,753)	17,136
Taxes			
Current income tax expense	6(a)	-	-
(Loss)/gain for the year		(53,753)	17,136
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		(53,753)	17,262
Total comprehensive income for the period attributable to members of the entity		(53,753)	17,262
Loss /Earnings per share:			
Basic (loss)/earnings per share (cents per share)	5	(3.31)	1.09
Diluted (loss) /earnings per share (cents per share)	5	(3.31)	1.09

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 2022

	Notes	Consolidated	
		2022 \$000	2021 \$000
Current assets			
Cash and cash equivalents	17(b)	112,424	98,436
Other receivables	7	674	351
Other assets	10	184	728
Total current assets		113,282	99,515
Non-current assets			
Property, plant and equipment	9	80	128
Financial assets	8	557	1,339
Exploration and evaluation expenditure	12	157,263	129,500
Right-of-use assets	11	390	593
Investment in Joint Ventures	14(2)	2,079	26,199
Total non-current assets		160,369	157,759
Total assets		273,651	257,274
Current liabilities			
Trade and other payables	15	2,531	1,310
Employee benefits	20(b)	569	604
Lease liabilities	11	221	203
Total current liabilities		3,321	2,117
Non-current liabilities			
Employee benefits	20(b)	132	202
Lease liabilities	11	220	441
Total non-current liabilities		352	643
Total liabilities		3,673	2,760
Net assets		269,978	254,514
Equity			
Contributed equity	16	314,096	246,268
Reserves	16	1,011	(378)
(Accumulated losses)/retained profit		(45,129)	8,624
Total equity		269,978	254,514

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 2022

	Issued capital \$000	Reserve shares \$000	(Accumulated losses) / retained profit \$000	Translation reserve \$000	Share based payments reserve \$000	Total \$000
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
Balance at 1 July 2021	246,268	(7,638)	8,624	152	7,108	254,514
Comprehensive Income						
Loss for the year	-	-	(53,753)	-	-	(53,753)
Total comprehensive loss for the year	-	-	(53,753)	-	-	(53,753)
Transactions with owners and other transfers						
Share based payments	-	-	-	-	626	626
Proceeds from capital raise	70,442	-	-	-	-	70,442
Transaction costs related to capital raise	(3,248)	-	-	-	-	(3,248)
Exercise of ESP shares	634	763	-	-	-	1,397
Total transactions with owners and other transfers	67,828	763	-	-	626	69,217
Balance at 30 June 2022	314,096	(6,875)	(45,129)	152	7,734	269,978

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 2022

	Notes	Consolidated	
		2022 \$'000	2021 \$'000
Cash flows from operating activities			
Payments to suppliers and employees		(5,957)	(5,349)
Interest received		337	492
Net cash used in operating activities	17(a)	(5,620)	(4,857)
Cash flows from investing activities			
Exploration and development expenditure		(38,126)	(9,413)
Research and development refundable tax offset		-	286
Other financial assets		(66)	-
Acquisition of property, plant and equipment	9	(18)	(120)
Investment in joint ventures		(14,493)	(196)
Cash recognised / (derecognised) on gain / (loss) of control of subsidiary		146	(30)
Net cash used in investing activities		(52,557)	(9,473)
Cash flows from financing activities			
Proceeds from capital raise - net of transaction costs		67,194	-
Proceeds from repayment of Employee Share Plan loans		1,397	445
Proceeds from exercise of options		-	150
Payment of principal portion of lease	11	(226)	(217)
Net cash provided by financing activities		68,365	378
Net increase in cash and cash equivalents held		10,188	(13,952)
Cash and cash equivalents at the beginning of the financial year		98,436	113,632
Effect of exchange rate fluctuations on cash and cash equivalents		3,800	(1,244)
Cash and cash equivalents at the end of the financial year	17(b)	112,424	98,436

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 Energy Limited ('Company') for the financial year ended 30 June 2022 comprises the Company and its controlled entities (the "Group").

Carnarvon Energy Limited is a for profit oil, gas and energy 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 31 August 2022.

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

2. OTHER INCOME

	Consolidated	
	2022	2021
	\$000	\$000
Interest revenue	336	492
	336	492

3. OTHER EXPENSES

	Consolidated	
	2022	2021
	\$000	\$000
The following expenses are included in administrative and employee benefit expenses in the consolidated income statement:		
Depreciation – property, plant and equipment	(66)	(53)
Depreciation – right-of-use assets	(203)	(203)
Defined contribution – superannuation expense	(311)	(318)

NOTES TO THE FINANCIAL STATEMENTS

4. AUDITORS' REMUNERATION

As a result of work in relation to and required for the 30 June 2022 period, the auditor of the Group, Ernst & Young, has charged the following fees:

	2022	2021
	\$	\$
<i>Fees to Ernst & Young Australia:</i>		
Fees for auditing statutory financial report of the parent covering the group and auditing the statutory financial report of any controlled entities	(98,875)	(67,600)

5. (LOSS)/ EARNINGS PER SHARE

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

	2022	2021
	Number of shares	
Issued ordinary shares at 1 July	1,565,379,917	1,564,379,917
Shares issued	234,806,987	1,000,000
Weighted average number of ordinary shares 30 June (basic)	1,623,920,837	1,565,127,862
Weighted average number of ordinary shares 30 June (diluted)	1,623,920,837	1,565,127,862
	2022	2021
	\$	\$
(Loss)/Earnings used in calculating basic and diluted loss per share	(53,753,000)	17,136,000

As the consolidated entity incurred a loss for the year ended 30 June 2022, the effect of 5,844,325 performance rights on issue is considered to be antidilutive and therefore not factored in determining the diluted earnings per share.

As at 30 June 2022, the Group has 42,069,399 reserve shares on issue under the employee share plan (refer Note 16). Based on the weighted average exercise price of these in substance options, they are also considered to be anti-dilutive and therefore have not impacted the calculation of diluted loss per share.

6. TAXES

	Consolidated	
	2022	2021
	\$000	\$000
(a) Income tax expense		
<i>Current Income tax expense</i>		
Current Income tax (benefit) / expense	-	-
Adjustment for prior period	99	236
	<u>99</u>	<u>236</u>
<i>Deferred tax (income)</i>		
Origination and Reversal of temporary differences – current		
Adjustment for prior period	(99)	(236)
	<u>(99)</u>	<u>(236)</u>
Total income tax (benefit) / expense	<u>-</u>	<u>-</u>
<i>Numerical reconciliation between pre-tax profit and income tax expense:</i>		
Profit/(Loss) for the period	(53,753)	17,136
Income tax using the statutory rate of 30% (2021: 30%)	(16,126)	5,141
Non-deductible expenditure	-	-
Non-assessable gain on loss of control	-	(7,090)
Share based payment expense	188	-
Accounting loss on Joint Venture agreement	9,190	-
Revaluation/impairment of financial assets	158	-
Impairment of assets	5,567	(91)
Other permanent adjustment	(26)	3
Current year tax benefit not brought to account	1,049	2,037
	<u>-</u>	<u>-</u>
Under(over) provision in prior years	<u>-</u>	<u>-</u>
Income tax (benefit) / expense	-	-

NOTES TO THE FINANCIAL STATEMENTS

6. TAXES (CONT'D)

(b) Current tax liability

The current tax liability of nil (2021: 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. At the date of this report, the members of the group have not entered into a tax sharing arrangement.

(c) Deferred tax assets and liabilities

	Consolidated	
	2022	2021
	\$000	\$000
<i>Deferred tax liabilities</i>		
Capitalised exploration deducted immediately	47,179	38,850
Unrealised foreign exchange gains	1,146	-
Gross deferred tax liabilities	48,325	38,850
	2022	2021
	\$000	\$000
<i>Deferred tax assets</i>		
Carry forward revenue tax losses	63,118	49,068
Unrealised foreign exchange loss	-	374
Property, plant and equipment	89	94
Share issue costs	846	160
Provisions	211	242
Accruals	28	27
Lease liability and right-of-use-assets	15	15
Gross deferred tax assets	64,307	49,980
Set-off of deferred tax liabilities pursuant to set-off provisions	(48,325)	(38,850)
Unrecognised deferred tax asset	(15,983)	(11,130)
Net deferred tax assets	-	-

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

	2022	2021
	\$000	\$000
Total Australian tax losses	210,394	163,560
Unaugmented PRRT losses	187,974	151,242

7. OTHER RECEIVABLES

	Consolidated	
	2022	2021
	\$000	\$000
<i>Current</i>		
Other receivables	456	133
Cash held as security	218	218
	674	351

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

8. FINANCIAL ASSETS

	2022	2021
	\$000	\$000
Financial assets at FVTPL	557	1,339
<i>Reconciliation</i>		
Reconciliation of the fair values at the beginning and end of the current financial year are set out below:		
Beginning balance	1,339	1,037
Fair value movements	(525)	302
Disposal of financial assets	(323)	-
Closing balance	491	1,339
Other financial assets	66	-
Carrying value at the end of period	557	1,339

On 6 September 2017, CWX Global Limited (formerly Loys 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.

During the reporting period, Carnarvon disposed of 96,127,400 shares at average of S\$0.002/share.

The shares in CWX held by Carnarvon at 30 June 2022 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 2022.

Other financial assets:

On 4 March 2022, Carnarvon entered into a 12-month call option to purchase a 65Ha site in the Shire of Narrogin, approximately 200kms southeast of Perth, Western Australia, for its biorefinery project.

NOTES TO THE FINANCIAL STATEMENTS

9. PROPERTY, PLANT AND EQUIPMENT

	Consolidated	
	2022	2021
	\$000	\$000
<i>Fixtures and fittings</i>		
Gross carrying amount at cost:		
Balance at beginning of financial year	729	610
Additions	18	119
Disposals	-	-
Balance at end of financial year	747	729
Depreciation and impairment losses:		
Balance at beginning of financial year	601	548
Additions	-	-
Disposals	-	-
Depreciation charge for year	66	53
Balance at end of financial year	667	601
Carrying amount opening	128	62
Carrying amount closing	80	128

10. OTHER ASSETS

	Consolidated	
	2022	2021
	\$000	\$000
<i>Current</i>		
Deposits and prepayments	184	728

11. 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	
	2022	2021
	\$000	\$000
Balance at beginning of financial year	593	796
Additions	-	-
Depreciation expense	(203)	(203)
Balance at end of financial year	390	593

Lease liabilities

	Consolidated	
	2022	2021
	\$000	\$000
Balance at beginning of financial year	644	830
Additions	-	-
Interest expense	23	31
Lease payments	(226)	(217)
Balance at end of financial year	441	644
Current lease	221	203
Non-current lease	220	441
Balance at end of financial year	441	644

The following are the amounts recognised in profit or loss:

	Consolidated	
	2022	2021
	\$000	\$000
Depreciation – right-of-use assets	(203)	(203)
Interest expense – lease liabilities	(23)	(31)

NOTES TO THE FINANCIAL STATEMENTS

12. EXPLORATION AND EVALUATION EXPENDITURE

	Consolidated	
	2022 \$000	2021 \$000
Cost:		
Balance at beginning of financial year	129,500	122,622
Additions	38,487	9,335
Derecognition on loss of control of subsidiary	-	(2,171)
R&D refundable tax offset	-	(286)
Exploration expenditure written off	(10,724)	-
Balance at end of financial year	157,263	129,500

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.

Written off exploration expenditure relates to TL-SO-T 19-14 production sharing contract and the WA-523-P, WA-521-P, WA-155-P, AC/P62 and AC/P63 permits. With consideration of AASB 6, with no substantive expenditure planned on these permits and the unlikely ability to achieve value on these permits through a development or farm-out, the Company has performed an impairment assessment and formed the view that capitalised exploration expenditure relating to above permits are impaired and should be written off.

13. JOINT OPERATIONS

The Group has the following interests in joint operations:

Joint operation	Principal activities	Ownership interest %	
		2022	2021
<i>Western Australia</i>			
WA-435-P, WA-437-P, Roebuck Basin	Exploration for hydrocarbons	20%	20%
WA-436-P, WA-438-P, Roebuck Basin	Exploration for hydrocarbons	30%	30%

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.

14. INVESTMENT IN JOINT VENTURES

1) Investment in Carnarvon Petroleum Timor

On 9 June 2022, Carnarvon and Advance Energy signed a Termination and Settlement Deed. Under the Deed, both parties agreed to terminate the Subscription Agreement and the Equity Holders Agreement in relation to the incorporated joint venture in Carnarvon Petroleum Timor (CPT). In accordance with the settlement, Carnarvon received a payment of US\$100,000(A\$145,195) from Advance Energy, which is offset against the share of loss in CPT.

Prior to the termination date of 9 June 2022, the arrangement was classified as a Joint Venture. Prior to this date, Carnarvon recognised its interest in the Joint Venture using the equity method. As such, Carnarvon accounted for its 50% share of loss for the period up to the termination date. Following the termination date, Carnarvon gained control of CPT.

The identifiable assets and liabilities, as at 9 June 2022, of CPT are as follows:

	<u>\$000</u>
Cash at bank	146
Total assets	146
Trade and other payables	146
Total liabilities	146
Net assets	<u>-</u>

As indicated above, the fair value of net assets of CPT at 9 June 2022 is nil.

Reconciliation of interest in CPT:

	<u>9 June 2022</u>	<u>30 June 2021</u>
	<u>\$000</u>	<u>\$000</u>
Investment in joint venture beginning balance	26,199	25,798
Additional investment in joint venture	11,755	478
Share of loss for the period (50%)	(30,121) ¹	(77)
Impairment of Investment in joint venture	(7,833) ²	-
Investment in joint venture closing balance	<u>-</u>	<u>26,199</u>

¹ The Company's share of the joint venture losses for the period were \$36,071,000, however the share of losses for the period was capped at \$30,121,000 which brought the Company's investment in the joint venture to nil.

² The Company performed an impairment assessment at 31 December 2021 and, following the completion of the Buffalo-10 well which failed to encounter a quantity of hydrocarbons that could be produced commercially, impaired the carrying value of its investment in the joint venture to nil at this date.

NOTES TO THE FINANCIAL STATEMENTS

14. INVESTMENT IN JOINT VENTURES (CONT'D)

Summarised financial information of CPT:

Summarised statement of profit or loss of CPT for the period from 1 July 2021 to 9 June 2022:

	9 June 2022	30 June 2021
	\$000	\$000
Administrative expenses	(1,026)	(112)
Employee benefits	(105)	(41)
Foreign exchange loss	(65)	(2)
Exploration expenditure write-off	(81,078)	-
Income tax benefit on the reversal of deferred tax liability	10,129	-
Loss for the period	(72,142)	(155)
Group's share of loss for the period (50%)	(36,071)	(77)

2) Investment in FutureEnergy

In October 2021, Carnarvon formed a Joint venture with Frontier Impact Group under the name FutureEnergy Australia Pty Ltd ("FEA") to produce renewable diesel in Western Australia. With 50% equity in the joint venture, Carnarvon invested A\$2,592,000 into FEA on 21st October 2021 to fund the FEED activities to enable a final investment decision for the project.

The Group's interest in FEA is to be accounted for as a joint venture using the equity method.

Reconciliation of interest in FEA:

	30 June 2022
	\$000
Investment in joint venture beginning balance	2,592
Share of loss for the period (50%)	(513)
Investment in joint venture closing balance	2,079

14. INVESTMENT IN JOINT VENTURES (CONT'D)

Summarised financial information of FEA:

Summarised statement of financial position of FEA at 30 June 2022:

	30 June 2022
	\$000
Current assets	
Cash and cash equivalents	1,629
Non-current assets	2,591
Current liabilities	
Trade and other payables	62
Equity	4,158
Group's share in equity (50%)	2,079
Group's carrying amount of the investment	<u>2,079</u>

Summarised statement of profit or loss of FEA for the period from 1 October 2021 to 30 June 2022:

	30 June 2022
	\$000
Administrative expenses	(539)
Employee benefits	(486)
Loss for the period	(1,025)
Group's share of loss for the period (50%)	<u>(513)</u>

15. TRADE AND OTHER PAYABLES

	Consolidated	
	2022	2021
	\$000	\$000
<i>Current</i>		
Trade payables	2,234	995
Director fees payable	90	116
Non-trade payables and accrued expenses	207	199
	<u>2,531</u>	<u>1,310</u>

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

NOTES TO THE FINANCIAL STATEMENTS

16. CAPITAL AND RESERVES

	Consolidated	
	2022	2021
	Number of shares	
<i>Contributed equity</i>		
Balance at beginning of financial year	1,565,379,917	1,564,379,917
Issued for cash	234,806,987	1,000,000
Balance at end of financial year	1,800,186,904	1,565,379,917

	2022	2021
	\$000	\$000
<i>Issued capital</i>		
Balance at beginning of financial year	246,268	245,856
Exercise of employee shares	634	262
Exercise of options	-	150
Proceeds from capital raise	67,194	-
Balance at end of financial year	314,096	246,268

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.

	2022	2021
	Number of shares	
<i>Reserve shares (plan shares)</i>		
Balance at beginning of financial year	52,504,005	57,392,934
Employee Share Plan issued	-	-
Employee Share Plan repaid	(10,434,606)	(4,888,929)
Balance at end of financial year	42,069,399	52,504,005

	2022	2021
	\$000	\$000
<i>Reserve shares (plan shares)</i>		
Balance at beginning of financial year	(7,638)	(7,820)
Employee Share Plan issued	-	-
Employee Share Plan repaid	763	182
Balance at end of financial year	(6,875)	(7,638)

Translation reserve

Movements in the translation reserve are set out in the Statement of Changes in Equity on page 51.

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 51. This reserve represents the fair value of shares and rights issued under the previous Employee Share Plan and current Employee Share Incentive Plan respectively.

17. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Consolidated	
	2022 \$000	2021 \$000
(a) Cash flows from operating activities		
(Loss)/profit for the year	(53,753)	17,136
<i>Adjustments for:</i>		
Depreciation	67	53
Share based payment	627	
Fair Value Movement of financial asset	525	302
Foreign exchange movement	(3,824)	1,030
Exploration expenditure write-off	10,724	-
Gain on disposal of subsidiary	-	(23,635)
Share of loss on Joint Venture	30,633	(78)
Impairment of Investment in joint ventures	7,833	-
Operating loss before changes in working capital and provisions:	(7,168)	(5,192)
Changes in assets and liabilities:		
(Increase) in other receivables	(322)	(71)
Decrease in other assets	544	85
Increase in trade and other payables	1,221	363
Decrease/(Increase) in provisions and employee benefits	105	(2)
Derecognition of other payables from subsidiary disposal	-	(40)
Net cash flows used in operating activities	(5,620)	(4,857)

(b) Reconciliation of cash and cash equivalents

Cash at bank and at call	16,124	31,443
Cash on deposit	96,300	66,993
	112,424	98,436

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

Restricted cash of \$218,000 relating to security deposits for corporate credit cards and rental of the Company's head office is included under other receivables (2021: \$218,000 consolidated), see Note 7.

NOTES TO THE FINANCIAL STATEMENTS

18. 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	
	2022	2021
	\$000	\$000
Less than one year	348	250
Between one and five years	-	-
	<u>348</u>	<u>250</u>
(b) Capital expenditure commitments		
Data licence commitments	<u>584</u>	<u>560</u>

(c) Leases

Lease information for the current reporting period is outlined in Note 11.

19. 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.

20. EMPLOYEE BENEFITS

	Consolidated	
	2022	2021
	\$000	\$000
(a) Employee benefits charged to P&L		
Salary and wages (including super)	4,569	4,464
Staff costs allocated to projects	(2,697)	(3,745)
Short term cash bonus	99	302
Share based payment expense	626	-
Total Employee benefits	2,597	1,021

	Consolidated	
	2022	2021
	\$000	\$000
(b) Employee benefits liabilities		
<i>Current:</i>		
Liability for annual leave and long service leave	569	604
<i>Non-Current:</i>		
Provision for long service leave	132	202
Total Employee benefits	701	806

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

20. EMPLOYEE BENEFITS (CONT'D)

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

	Number 2022	WAEP 2022	Number 2021	WAEP 2021
Outstanding at beginning of year	52,504,005	0.27	57,392,934	0.25
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	10,434,606	0.13	4,888,929	0.09
Expired during the year	-	-	-	-
Outstanding at end of year	42,069,399	0.30	52,504,005	0.27
Exercisable at end of year	42,069,399	0.30	52,504,005	0.27

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. There were no ESP shares issued during the period.

Employee share Incentive plan

The following table illustrates the balance and valuation of performance rights using Monte Carlo Simulation model as at 30 June 2022:

Instrument	Held at 1 July 2021		Share price at grant date		Vesting period	Exercise price	Share price volatility	Risk free rate	Dividend yield	Rights Granted	Rights Forfeited	Fair value at grant date	Held at 30 June 2022 (unvested)
	July 2021	Grant date	Share price at grant date	Share price at grant date									
Performance rights-LTIP	-	01/07/2021	0.26	0.26	3 years	-	50%	0.1%	0%	2,716,560	-	0.19	2,716,560
Performance rights-STIP	-	01/07/2021	0.26	0.26	1 year	-	50%	0.1%	0%	403,110	-	0.26	403,110
Performance rights-LTIP	-	12/11/2021	0.33	0.33	3 years	-	50%	0.1%	0%	2,179,724	-	0.24	2,179,724
Performance rights-STIP	-	12/11/2021	0.33	0.33	1 year	-	50%	0.1%	0%	544,931	-	0.33	544,931
Total										5,844,325			5,844,325

Under the terms of the Employee Share Incentive Plan (Plan) which was last approved by shareholders of the Company on 11 November 2020, performance rights can be granted to eligible employees for no consideration. Entitlements under these awards vest as soon as the associated vesting conditions have been met. Awards can be settled in cash at the absolute discretion of the Company. Awards under the Plan carry dividends and voting rights.

Performance rights awarded under the STIP are granted for a 12-month period. The vesting condition requires the employee to remain employed by the Company until 30 June 2022.

Performance rights awarded under the LTIP are granted for a 3 year period. The vesting conditions are based on Carnarvon’s 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 participants must also be employed by the Company over the vesting period and as at the vesting date.

20. EMPLOYEE BENEFITS (CONT'D)

The vesting schedule of 50% of the LTIP performance rights 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, Strike Energy, Warrego Energy.

The vesting schedule of 50% of the LTIP performance rights 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%

There is an expiration date of 10 years and an exercise period of 90 days from the vesting dates for both STIP and LTIP performance rights.

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

	Number 2022	WAEP 2022	Number 2021	WAEP 2021
Outstanding at 1 July	-	-	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	-	-	-	-
Exercisable at 30 June	-	-	-	-

The weighted average remaining contractual life for the share options outstanding as at 30 June 2022 was zero. (2021: 0).

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

21. RELATED PARTY DISCLOSURES

Ultimate parent

Carnarvon Energy Limited is the ultimate parent company.

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 \$1,170,000 (2021: \$876,000). The Company provided accounting and administrative services to its other controlled entities for which it did not charge a management fee.

The carrying value of loans to controlled entities was \$3,099,000 as at 30 June 2022 (2021: \$3,221,000). 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 after-tax profits of CPT noting that Buffalo project drilling results was uncommercial.

Other related party balances and transactions

At 30 June 2022, an amount of \$ 90,000 (2021: \$116,250) is included in Carnarvon and consolidated trade and other payables for outstanding director fees and expenses.

22. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

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

	Consolidated	
	2022	2021
	\$000	\$000
Short term benefits	1,924	2,145
Post employment benefits	66	97
Share based payments	825	-
Long term benefits	101	(19)
	<u>2,916</u>	<u>2,223</u>

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 31 to 43.

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.

22. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONT'D)

(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	
	2022 \$000	2021 \$000
<i>Current</i>		
Director's fee payable	90	116

(c) Ordinary shares held by key management personnel

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

	Held at 1 July 2021	Net acquired/ (sold)	Award under Employee Share Plan	Received on exercise of options	Held at 30 June 2022
<i>Directors</i>					
WA Foster	1,425,938	-	-	-	1,425,938
AC Cook	15,938,797	-	-	-	15,938,797
P Moore	964,232	-	-	-	964,232
SG Ryan	305,221	-	-	-	305,221
D Bakker	304,774	270,000	-	-	574,774
<i>Executives</i>					
PP Huizenga	12,076,196	-	-	-	12,076,196
TO Naude	4,074,357	(55,000)	-	-	4,019,357
	Held at 1 July 2020	Net acquired/ (sold)	Award under Employee Share Plan	Received on exercise of options	Held at 30 June 2021
<i>Directors</i>					
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
<i>Executives</i>					
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.

NOTES TO THE FINANCIAL STATEMENTS

22. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONT'D)

(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:

2022	Held at 1 July 2021	Granted as compensation	Employee Share Plan cancellations	Exercised	Held at 30 June 2022
<i>Directors</i>					
WA Foster	-	-	-	-	-
AC Cook	12,945,592	-	-	-	12,945,592
P Moore	-	-	-	-	-
SG Ryan	-	-	-	-	-
D Bakker	-	-	-	-	-
<i>Executives</i>					
PP Huizenga	11,976,196	-	-	-	11,976,196
TO Naude	3,992,512	-	-	-	3,992,512

2021	Held at 1 July 2020	Granted as compensation	Employee Share Plan cancellations	Exercised	Held at 30 June 2021
<i>Directors</i>					
PJ Leonhardt	3,000,000	-	-	3,000,000	-
WA Foster	-	-	-	-	-
AC Cook	12,945,592	-	-	-	12,945,592
P Moore	-	-	-	-	-
SG Ryan	-	-	-	-	-
D Bakker	-	-	-	-	-
<i>Executives</i>					
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

There were no options on issue that were still to vest at the end of the reporting period.

22. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONT'D)

(f) Performance rights - LTIP held by key management personnel

2022	Held at 1 July 2021	Granted	Exercised	Held at 30 June 2022	Vested and exercisable at 30 June 2022	Vested and unexercisable at 30 June 2022
<i>Directors</i>						
WA Foster	-	-	-	-	-	-
AC Cook	-	2,179,724	-	2,179,724	-	-
P Moore	-	-	-	-	-	-
SG Ryan	-	-	-	-	-	-
<i>Other Executives</i>						
PP Huizenga	-	1,001,092	-	1,001,092	-	-
TO Naude	-	585,468	-	585,468	-	-
Total	-	3,766,284	-	3,766,284	-	-

Performance rights- STIP held by key management personnel

2022	Held at 1 July 2021	Granted	Exercised	Held at 30 June 2022	Vested and exercisable at 30 June 2022	Vested and unexercisable at 30 June 2022
<i>Directors</i>						
WA Foster	-	-	-	-	-	-
AC Cook	-	544,931	-	544,931	-	-
P Moore	-	-	-	-	-	-
SG Ryan	-	-	-	-	-	-
<i>Executives</i>						
PP Huizenga	-	255,279	-	255,279	-	-
TO Naude	-	147,831	-	147,831	-	-
Total	-	948,041	-	948,041	-	-

NOTES TO THE FINANCIAL STATEMENTS

23. CONSOLIDATED ENTITIES AND JOINT VENTURE

Name	Country of Incorporation	Ownership interest	
		2022	2021
<i>Company</i>			
Carnarvon Energy Ltd	Australia		
<i>Controlled entities</i>			
Carnarvon Thailand Ltd	British Virgin Islands	100%	100%
Lassoc Pty Ltd ¹	Australia	-	100%
SRL Exploration Pty Ltd ¹	Australia	-	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	Timor-Leste	100%	50%
Carnarvon Future Energy Pty Ltd ²	Australia	100%	-
FutureEnergy Australia Pty Ltd ²	Australia	50%	-

¹ Entities were deregistered during the period.

² Entities were registered during the period.

24. SUBSEQUENT EVENTS

On 1 July 2022, the Company awarded 4,528,782 performance rights to KMP (other than the CEO) and other employees under the company's performance rights plan.

On 18 July 2022, the Company cancelled and settled in cash 948,041 vested performance rights relating to the FY21 short term incentive plan, following the exercise of the performance rights on 5 July 2022.

On 15 August 2022, the regulator consented to the surrender of the WA-521-P permit by the Company.

Other than above, there is no other matters or circumstance which have arisen since 30 June 2022 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

25. FINANCIAL RISK MANAGEMENT

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

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

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

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

(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	
	2022	2021
<i>Carrying amount (A\$000)</i>		
Financial assets – cash and cash equivalents	112,424	98,436
<i>Weighted average interest rate (%)</i>		
Financial assets – cash and cash equivalents	0.95%	0.21%

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

NOTES TO THE FINANCIAL STATEMENTS

25. FINANCIAL RISK MANAGEMENT (CONT'D)

Sensitivity analysis

An increase in 100 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 was performed on 25 basis points for 2021:

	Consolidated	
	Equity \$000	Profit and loss \$000
30 June 2022	1,126	1,126
30 June 2021	246	246

A decrease in 100 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 was performed on 25 basis points for 2021:

	Consolidated	
	Equity \$000	Profit and loss \$000
30 June 2022	(1,126)	(1,126)
30 June 2021	(246)	(246)

(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 receivables are deposits. There were no receivables at 30 June 2022 or 30 June 2021 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	
	2022 \$000	2021 \$000
<i>Carrying amount:</i>		
Cash and cash equivalents	112,424	98,436
Other receivables	674	351
	113,098	98,787

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

25. FINANCIAL RISK MANAGEMENT (CONT'D)

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

	Gross 2022 \$000	Impairment 2022 \$000	Gross 2021 \$000	Impairment 2021 \$000
Not past due	674	-	351	-
	674	-	351	-

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
<i>30 June 2022</i>	
Cash and cash equivalents	29,449
Trade payables and accruals	198
Gross balance sheet exposure	29,647
<i>30 June 2021</i>	
Cash and cash equivalents	9,956
Trade payables and accruals	-
Gross balance sheet exposure	9,956

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
AUD to:	2022	2021	2022	2021
1 USD	1.3841	1.337	1.452	1.332

NOTES TO THE FINANCIAL STATEMENTS

25. FINANCIAL RISK MANAGEMENT (CONT'D)

Sensitivity analysis

A 5% strengthening of the AUD against the USD for the 12 months to 30 June 2022 and 30 June 2021 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
<i>30 June 2022</i>		
USD	(2,036)	(2,036)
<i>30 June 2021</i>		
USD	(631)	(631)

A 5% weakening of the AUD against the USD for the 12 months to 30 June 2022 and 30 June 2021 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
<i>30 June 2022</i>		
USD	2,250	2,250
<i>30 June 2021</i>		
USD	698	698

(e) 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
<i>30 June 2022</i>				
<i>Non-derivative financial liabilities</i>				
Trade and other payables	2,234	2,234	2,234	-
<i>30 June 2021</i>				
<i>Non-derivative financial liabilities</i>				
Trade and other payables	1,111	1,111	1,111	-

26. FAIR VALUE MEASUREMENT

Fair value hierarchy

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

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

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

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

30 June 2022	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Other financial assets	557	-	-	557
Total assets	557	-	-	557

30 June 2021	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Other financial assets	1,339	-	-	1,339
Total assets	1,339	-	-	1,339

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.

NOTES TO THE FINANCIAL STATEMENTS

27. PARENT INFORMATION

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

	2022	2021
	\$000	\$000
Statement of financial position		
Current Assets	113,139	99,515
Non-current assets	159,878	159,657
Total assets	<u>273,017</u>	<u>259,172</u>
Current liabilities	1,457	1,914
Non-current liabilities	573	846
Total liabilities	<u>2,030</u>	<u>2,760</u>
Equity		
Issued Capital	314,096	246,268
(Accumulated loss) /gain	(43,968)	10,674
Reserves	859	(530)
Total equity	<u>270,987</u>	<u>256,412</u>
Statement of comprehensive income		
Total (loss)/ gain	<u>(52,089)</u>	<u>19,677</u>
Total comprehensive (loss)/gain	<u>(52,089)</u>	<u>19,677</u>

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.

(a) Exploration expenditure commitments

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

27. PARENT INFORMATION (CONT'D)

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

	Parent	
	2022	2021
	\$000	\$000
Less than one year	348	250
Between one and five years	-	-
	348	250
(b) Capital expenditure commitments		
Data licence commitments	584	560

28. CONTINGENT ASSETS AND LIABILITIES

There were no contingent assets and liabilities as at 30 June 2022 (2021: \$0).

29. BASIS OF PREPARATION OF THE FINANCIAL REPORT

(a) Statement of compliance

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

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.

(b) Adoption of new and amended Accounting Standards

The accounting policies adopted are consistent with those of the previous financial year.

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

29. BASIS OF PREPARATION OF THE FINANCIAL REPORT (CONT'D)

(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.

(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.

30. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report. The accounting policies have been applied consistently by all entities in the Group.

(a) Basis of consolidation

Controlled entities

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2022. 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

30. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Joint Operations

The Group's share of the assets including its share of any assets held jointly, liabilities including its share of any liabilities incurred jointly, revenue from the sale of its share of the output arising from the joint operation and share of revenue from the sale of output by the joint operation and expenses, including its share of any expenses incurred jointly, have been included in the appropriate line items of the consolidated financial statements. Details of the Group's interests are provided in Note 13.

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 14.

(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.

30. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

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

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

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 Energy 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 Energy Limited is the head entity 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

30. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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.

30. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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

30. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

30. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

30. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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 Energy Limited, in assessing performance and determining the allocation of resources. The segment operations and results are the same as those reported in the Group financial statements.

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.

From management purposes, the Group has identified only one reportable segment, being offshore exploration activities undertaken in Australia. This segment includes activities associated with the determination and assessment of the existence of commercial resources, from the Group's permits in this geographic location.

(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.

30. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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 current Employee Share Plan ("ESIP"), by the award of performance rights. Share based compensation has also been provided under the former Employee Share Plan ("ESP"), financed by means of interest-free limited recourse loans. Under AASB 2 "*Share-based Payments*", the both ESIP and ESP shares are deemed to be equity settled, share-based remuneration.

The fair values of the performance rights granted under the ESIP are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at the grant date and recognised over the period during which the employee becomes unconditionally entitled to the performance rights.

Under the ESP, 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 under the Former and Current ESP is determined using pricing models 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 shares under the Former ESP, 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.

NOTES TO THE FINANCIAL STATEMENTS

30. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Cash and cash equivalents

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

(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.

30. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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 2022. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below:

Reference	Title	Summary	Impact on the Company	Application date of standard	Application date for Group
AASB 2020-3 Amendments to IAS 37	Costs of Fulfilling a Contract	The amendments to AASB 137 <i>Provisions, Contingent Liabilities and Contingent Assets</i> specify that the 'cost of fulfilling' an onerous contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.	There is no material impact on the Company.	1 January 2022	1 July 2022
AASB 2020-3 Amendments to IAS16	Property, Plant and Equipment: Proceeds before Intended Use	The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.	There is no material impact on the Company.	1 January 2022	1 July 2022
AASB 2021-5 Amendments to Australian Accounting Standards	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>	The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.	The Company is still assessing the impact.	1 January 2023	1 July 2023

DIRECTORS' DECLARATION

- (1) In the opinion of the directors of Carnarvon Energy Limited:
 - (a) the financial statements and notes of the Group set out on pages 49 to 93 are in accordance with the *Corporations Act 2001* (Cth), including:
 - (i) Giving a true and fair view of the Group's financial position as at 30 June 2022 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 30; 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 2022.

Signed in accordance with a resolution of the directors.



William A Foster
Chairman

Perth, 31 August 2022

INDEPENDENT AUDIT REPORT



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

Report on the audit of the financial report

Opinion

We have audited the financial report of Carnarvon Energy Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2022, 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 statement of financial position of the Group as at 30 June 2022 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 the matter below, our description of how our audit addressed the matter is provided in that context.

INDEPENDENT AUDIT REPORT



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 this matter. 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 matter below, provide the basis for our audit opinion on the accompanying financial report.

1. Carrying value of capitalised exploration and evaluation expenditure

Why significant

As disclosed in Note 12 to the financial report, the Group held capitalised exploration and evaluation expenditure of \$157,263,000 as at 30 June 2022.

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, and therefore this was considered to be a key audit matter.

How our audit addressed the key audit matter

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 there was consideration of the effect of potential indicators of impairment.
- ▶ We assessed the adequacy of the financial report disclosures contained in Note 12 of the financial report.



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

The directors are responsible for the other information. The other information comprises the information included in the Company's 2022 annual report, but does not include the financial report and our auditor's report thereon. We obtained the chairman's review, managing director's review, operating and financial review and the director's report that are to be included in the annual report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the annual report after the date of this auditor's report.

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.

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.

INDEPENDENT AUDIT REPORT



- ▶ 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 31 to 43 of the directors' report for the year ended 30 June 2022.

In our opinion, the Remuneration Report of Carnarvon Energy Limited for the year ended 30 June 2022, complies with section 300A of the *Corporations Act 2001*.

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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.

A handwritten signature in black ink that reads 'Ernst + Young'.

Ernst & Young

A handwritten signature in black ink that reads 'T S Hammond'.

T S Hammond
Partner
Perth
31 August 2022

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 29 August 2022

Substantial shareholders

Name of Shareholder	Number of Shares	Date of Notice
Collins St Asset Management ATF Collins St Value Fund	123,503,973	18 August 2022

Unmarketable Parcels

	Minimum Parcel Size	Holders	Units
Minimum \$500.00 parcel at \$0.16 per unit	3,125	2,183	3,493,683

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
Sandhurst Trustees Ltd	123,503,973	6.86
Citicorp Nominees Pty Limited	115,862,189	6.44
J P Morgan Nominees Australia Pty Limited	115,853,618	6.44
HSBC Custody Nominees (Australia) Limited	61,693,898	3.43
BNP Paribas Noms Pty Ltd	31,060,802	1.73
National Nominees Limited	29,393,928	1.63
BNP Paribas Nominees Pty Ltd	28,094,181	1.56
Marford Group Pty Ltd	23,000,000	1.28
Nero Resource Fund Pty Ltd	21,242,562	1.18
Havannah Investments Pty Ltd	16,710,037	0.93
Brixia Investments Ltd	13,261,000	0.74
Prettejohn Projects Pty Ltd	12,500,000	0.69
Mr Philip Paul Huizenga	11,876,196	0.66
Mr Adrian Caldwell Cook Ms Belinda Michelle Honey	11,520,592	0.64
BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd	10,595,414	0.59
Treasury Services Group Pty Ltd	10,000,000	0.56
Pullington Investments Pty Ltd	9,752,590	0.54
Mr Edward Patrick Jacobson	9,522,482	0.53
47 Eton Pty Ltd	9,100,000	0.51
Jacobson Geophysical Services Pty Ltd	8,754,068	0.49
	673,297,530	37.40

Distribution of equity security holders

Size of Holding			Number of shareholders	Number of fully paid shares
1	to	1,000	638	233,396
1,001	to	5,000	2,625	7,931,884
5,001	to	10,000	1,976	16,288,654
10,001	to	100,000	5,618	222,799,324
100,001	and over		1,946	1,552,933,646
			12,803	1,800,186,904

b) Option holdings as at 30 August 2022

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
WA-64-L	Roebuck / Australia	Carnarvon Santos Limited	20% 80%	Santos Limited
TL-SO-T 19-14 PSC	Bonaparte / Timor-Leste	Carnarvon	100%	Carnarvon
WA-155-P	Carnarvon / Australia	Carnarvon	100%	Carnarvon
WA-521-P	Roebuck / Australia	Carnarvon	100%	Carnarvon
WA-523-P	Bonaparte / Australia	Carnarvon	100%	Carnarvon
AC-P62	Bonaparte / Australia	Carnarvon	100%	Carnarvon
AC-P63	Bonaparte / Australia	Carnarvon	100%	Carnarvon
EP509	Carnarvon / Australia	Carnarvon	100%	Carnarvon
TP29	Carnarvon / Australia	Carnarvon	100%	Carnarvon



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