

DIRECTORS' REPORT



STATUTORY INFORMATION

The directors present their report together with the financial report of the Group, being the Company, its controlled entities, and the Group's interest in jointly controlled assets, for the financial year ended 30 June 2021, and the auditor's report thereon.

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

DIRECTORS

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



William (Bill) A Foster

*Chair
BE (Chemical)*

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

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

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

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



Peter J Leonhardt

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

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

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

During the past three years Mr Leonhardt has served as a director of CTI Logistics Limited (from August 1999).

DIRECTORS' REPORT



Adrian C Cook

*Chief Executive Officer and Managing Director
B Bus, CA, MAppFin, FAICD*

Appointed as a director on 1 July 2011

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

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



Peter Moore

*Non-Executive Director
B.Sc (Hons Geology), MBA, PhD, GAICD.*

Appointed as a director on 18 June 2015.

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

During the past three years Dr Moore served as a non-executive Director of Beach Energy Limited (since 2017).

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

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Gavin Ryan

*Non-Executive Director
LLB (Hons), MAICD*

Appointed as a director on 30 July 2018.

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

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

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



Debra Bakker

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

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

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

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



Mr Thomson Naude



Mr Alex Doering

Company Secretary

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

Mr Alex Doering was appointed as Joint company secretary in August 2019. Mr Doering is a qualified Chartered Accountant, an Associate of the Governance Institute of Australia and the Financial Controller at Carnarvon Petroleum.

DIRECTORS' 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)
PJ Leonhardt ¹	9	9
WA Foster ²	15	15
AC Cook	15	15
P Moore	15	15
SG Ryan	15	15
D Bakker ³	10	10

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

(b) Number of meetings attended

¹ Mr Leonhardt retired from the Board on 11 November 2020.

² Mr Foster was appointed as Chairman on 11 November 2020.

³ Ms Bakker was appointed to Board as a Non-Executive Director on 5 October 2020.

Audit Committee

Names and qualifications of Audit and Risk Committee members

The Committee is to include at least 3 members from 1 July 2009. Current members of the committee are Ms Bakker (appointed Chair of the Audit Committee on 11 December 2020), Dr Moore and Mr Ryan. Qualifications of Audit and Risk Committee members are provided in the Directors section of this directors' report. Mr Foster retired from the Committee on 11 December 2020.

Audit Committee meetings

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

	(a)	(b)
WA Foster ¹	1	1
D Bakker ²	1	1
P Moore	2	2
SG Ryan	2	2

(a) Number of meetings held during period of office

(b) Number of meetings attended

¹ Mr Foster retired from the Committee on 11 December 2020.

² Ms Bakker was appointed to Committee as Chair on 11 December 2020.

Risk, Governance and Sustainability Committee

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

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

RGS Committee meetings

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

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

(a) Number of meetings held during period of office

(b) Number of meetings attended

DIRECTORS' REPORT



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

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

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

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

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

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

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

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REMUNERATION REPORT (UNAUDITED) (CONTINUED)

FY21 remuneration outcomes at a glance

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

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

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

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

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

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

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

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

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

Key Management Personnel ("KMP")

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

Table 2: Key management personnel during FY21

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

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

Summary of Carnarvon's remuneration policy framework

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

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

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

How Carnarvon makes decisions about remuneration

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

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

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

Remuneration & Nomination Committee meetings

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

	(a)	(b)
SG Ryan	3	3
PS Moore	3	3
WA Foster ¹	1	1
D Bakker ²	2	2

(a) Number of meetings held during period of office.

(b) Number of meetings attended.

¹ Mr Foster retired from the Committee on 11 December 2020.

² Ms Bakker was appointed to Committee on 11 December 2020.

DIRECTORS' REPORT



REMUNERATION REPORT (CONTINUED)

External advisers and remuneration advice

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

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

The Board and Committee have regard to industry benchmarking information.

How Carnarvon links performance to incentives

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

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

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

SENIOR EXECUTIVE REMUNERATION STRUCTURE

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

Service contracts

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

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

Remuneration mix

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

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REMUNERATION REPORT (CONTINUED)

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

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

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

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

Table 3: Shareholder wealth indicators FY17 – FY21:

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

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

Table 4: Remuneration mix ¹

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.

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REMUNERATION REPORT (CONTINUED)

Fixed remuneration for the year

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

Short Term Incentive (STI)

What is the STI?

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

How does the STI link

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

What are the performance conditions or KPIs?

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

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

Refer to Table 5 for more information.

Different performance levels for KMPs

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

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

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

The value of the STI awards to individual KMPs

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

Assessment of performance conditions

The Board assesses the extent to which KPIs were met for the period after the close of the relevant financial year. The Board assesses the achievement of the KPIs for the CEO. The Board assesses the performance of other KMPs on the 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 as to 50% in cash and 50% in performance rights with a vesting period of 12 months. Carnarvon includes the cash and nominal value of any performance rights STI awards in its financial statements for the relevant financial year.

STI PERFORMANCE FOR THE YEAR

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

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

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

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

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

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

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REMUNERATION REPORT (CONTINUED)

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

Table 5: Outcome of FY21 STI Company KPIs:

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

STI performance rights issued in FY21

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

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REMUNERATION REPORT (CONTINUED)

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 senior executives at the discretion of the Board and offers to KMP as outlined in table 4.</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 (2021: CEO: 100%, other KMP: 50%) divided by the market value. The Market Value is the market value of a fully paid ordinary share in the Company, calculated using a five day VWAP, up to and including the date the performance rights are granted.</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>
What are the performance conditions?	<p>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.</p> <p>The vesting schedule of 50% of the performance rights granted in July 2021 will be subject to relative TSR testing is as follows:</p>

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

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

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

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

DIRECTORS' REPORT



REMUNERATION REPORT (CONTINUED)

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.

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

REMUNERATION POLICY FOR NON-EXECUTIVE DIRECTORS:

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

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

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

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

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

DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

Directors are not paid superannuation contributions by the Company.

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

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

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

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

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

REMUNERATION INITIATIVES DURING THE YEAR

Review of Senior Executive Remuneration

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

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

Staff structure and remuneration

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

REMUNERATION REPORT (CONTINUED)

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

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

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

¹ Mr Foster resigned as Chairman of the Remuneration and Nomination Committee on 12 April 2019. Mr Foster was appointed as Chairman on 11 November 2020.

² Mr Ryan was appointed as Chairman of the Remuneration and Nomination Committee on 12 April 2019.

³ Ms Bakker was appointed as a non-executive director on 5 October 2020. Ms Bakker was appointed Chair of the Audit committee on 11 December 2020.

⁴ Dr Moore was appointed as Chair of the Risk, Governance and Sustainability Committee on 11 December 2020.

⁵ Mr Leonhardt retired as a non-executive director and chairman on 11 November 2020.

⁶ These amounts represent the movements in the relevant leave entitlements provisions during the year.

⁷ There were no STI performance rights granted during the year, subsequent to year-end 403,110 STI performance rights were granted to KMP.

⁸ There were no LTI performance rights granted during the year, subsequent to year-end 1,586,560 LTI performance rights were granted to KMP.



DIRECTORS' REPORT

REMUNERATION REPORT (CONTINUED)

Ordinary shares held by key management personnel

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

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

Executives

PP Huizenga	12,076,196	-	-	-	12,076,196
TO Naude	4,074,357	-	-	-	4,074,357

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

Plan shares held by key management personnel

Included in the above table are plan shares held by key management personnel held under the previous ESP loan scheme which are accounted for as in substance options. The balance and movement during the reporting period in the number of plan shares directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

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

Options over equity instruments held by key management personnel

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

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

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

End of Remuneration Report

DIRECTORS' REPORT



Non-audit services

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

Directors' interests

At the date of this report, the relevant interests of the directors in securities of the Company are as follows:

Name	Ordinary Shares	Options over ordinary Shares
WA Foster	1,425,938	-
AC Cook	15,938,797	-
P Moore	964,232	-
SG Ryan	305,221	-
D Bakker	304,774	-

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

Diversity

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

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

2021 Measurable objectives

Aim to have not less than 30% of the directors of each gender.

Dedicated mentoring program for the female employees of the Company

Maintain flexible work practices

Progress

Female Board representation in 2021 was 20% (2020: 0%).

The Company provided ongoing training, mentoring and professional support in the development of all employees' careers.

The Company continued to maintain its flexible work practices which includes a parental leave policy and provides employees the ability to maintain flexible hours and to work from home where required.

Likely developments

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

Environmental regulation and performance

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

Dividends

No dividends were paid during the year and the directors do not recommend payment of a dividend in respect of the current financial year (2020: Nil).

Auditor's independence declaration

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

Principal activities

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

DIRECTORS' REPORT

Identification of independent directors

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

Significant changes in state of affairs

In the opinion of the directors no significant changes in the state of affairs of the Group occurred during the current financial year other than as outlined in the operating and financial review as set out on pages 6 to 25.

Indemnification and insurance of directors and officers

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

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

Proceedings on behalf of the Company

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

Operating and financial review

An operating and financial review of the Group for the financial year ended 30 June 2021 is set out on pages 6 to 25 and forms part of this report.

Indemnity of auditors

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

Events subsequent to reporting date

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

Other than above, there is no other matters or circumstance has arisen since 30 June 2021 that in the opinion of the directors has significantly affected, or may significantly affect in future financial years:

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

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, 30 August 2021