NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

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

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

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

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

2. INTEREST INCOME

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

3. GAIN ON LOSS OF CONTROL OF SUBSIDIARY

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

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

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

Derecognition of net assets of CPT

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

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

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

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

4. OTHER EXPENSES

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

5. AUDITORS' REMUNERATION

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

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

6. EARNINGS/(LOSS) PER SHARE

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

7. TAXES

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

7. TAXES (CONTINUED)

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

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

Tax Consolidation

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

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

(c) Deferred tax assets and liabilities

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

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

NOTES TO THE FINANCIAL STATEMENTS

7. TAXES (CONTINUED)

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

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

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

8. OTHER RECEIVABLES

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

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

9. OTHER FINANCIAL ASSETS

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

Reconciliation

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

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

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

The shares in CWX held by Carnarvon at 30 June 2021 has been accounted for as a fair value through profit or loss financial asset under Australian Accounting Standards and classified as a "level 1" financial asset under the fair value hierarchy using the share price of CWX as at 30 June 2021.

NOTES TO THE FINANCIAL STATEMENTS

10. PROPERTY, PLANT AND EQUIPMENT

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

11. OTHER ASSETS

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

NOTES TO THE FINANCIAL STATEMENTS

12. RIGHTS-OF-USE ASSETS AND LEASE LIABILITIES

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

13. EXPLORATION AND EVALUATION EXPENDITURE

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

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

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

14. JOINT OPERATIONS

The Group has the following interests in joint operations:

Joint operation	Principal activities	Ownership interest %	
Western Australia		**2021**	**2020**
WA-435-P, WA437-P, Roebuck Basin	Exploration for hydrocarbons	20%	20%
WA-436-P, WA 438-P, Roebuck Basin	Exploration for hydrocarbons	30%	30%
WA-155-P, Barrow sub Basin	Exploration for hydrocarbons	100%	70%

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

15. INTEREST IN JOINT VENTURE

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

15. INTEREST IN JOINT VENTURE (CONTINUED)

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

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

Exploration Commitments

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

16. TRADE AND OTHER PAYABLES

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

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

17. CAPITAL AND RESERVES

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

17. CAPITAL AND RESERVES (CONTINUED)

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

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

Translation reserve

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

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

Share based payments reserve

Movements in the share based payments reserve are set out in the Statements of Changes in Equity on page 52. This reserve represents the fair value of shares issued under the Carnarvon's ESP.

NOTES TO THE FINANCIAL STATEMENTS

18. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

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

(b) Reconciliation of cash and cash equivalents

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

19. CAPITAL AND OTHER COMMITMENTS

(a) Exploration expenditure commitments

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

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

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

Joint Venture exploration commitments

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

(b) Capital expenditure commitments

Data licence commitments	560	580

(c) leases

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

20. CONTINGENCIES

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

NOTES TO THE FINANCIAL STATEMENTS

21. EMPLOYEE BENEFITS

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

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

Employee Share Plan

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

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

NOTES TO THE FINANCIAL STATEMENTS

21. EMPLOYEE BENEFITS (CONTINUED)

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

21. EMPLOYEE BENEFITS (CONTINUED)

Options over equity instruments

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

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

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

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

	Number 2021	WAEP 2021	Number 2020	WAEP 2020
Outstanding at 1 July	1,000,000	0.15	1,000,000	0.15
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	1,000,000	0.15	-	-
Expired during the year	-	-	-	-
Outstanding at 30 June	-	-	1,000,000	0.15
Exercisable at 30 June	-	-	1,000,000	0.15

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

22. RELATED PARTY DISCLOSURES

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

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

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

Other related party balances and transactions

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

23. SEGMENT INFORMATION

The Group reports one segment, oil and gas exploration, development and production, to the chief operating decision maker, being the board of Carnarvon Petroleum Limited, in assessing performance and determining the allocation of resources.

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

Basis of accounting for purposes of reporting by operating segments

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

Exploration and evaluation assets by geographical region

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

NOTES TO THE FINANCIAL STATEMENTS

24. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

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

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

Information regarding individual directors and executives' compensation and some equity instruments disclosures, as permitted by Corporations Regulation 2M.3.03, are provided in the Remuneration Report section of the directors' report as set out on pages 33 to 44.

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

(b) Other key management personnel transactions

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

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

NOTES TO THE FINANCIAL STATEMENTS

24. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(c) Ordinary shares held by key management personnel

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

24. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(d) Plan shares held by key management personnel

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

25. CONSOLIDATED ENTITIES AND JOINT VENTURE

Name	Country of Incorporation	Ownership interest 2021	Ownership interest 2020
Company			
Carnarvon Petroleum Ltd			
Controlled entities			
Carnarvon Thailand Ltd	British Virgin Islands	100%	100%
Lassoc Pty Ltd	Australia	100%	100%
SRL Exploration Pty Ltd	Australia	100%	100%
Timor-Leste Petroleum Pty Ltd	Australia	100%	100%
Dorado Petroleum Pty Ltd	Australia	100%	100%
Carnarvon Bedout 1 Pty Ltd	Australia	100%	100%
Carnarvon Petroleum Timor Unip LDA [1]	Timor-Leste	50%	100%

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

26. SUBSEQUENT EVENTS

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

27. FINANCIAL RISK MANAGEMENT

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

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

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

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

(a) Interest rate risk

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Sensitivity analysis

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

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

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

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

(b) Credit risk

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

The Group's trade receivables are deposits and amounts due from the Australian Taxation office. There were no receivables at 30 June 2021 or 30 June 2020 that were past due.

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

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

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

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

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

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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

(c) Currency risk

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

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

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

	USD A$000
30 June 2021	
Cash and cash equivalents	9,956
Trade payables and accruals	-
Gross balance sheet exposure	9,956
30 June 2020	
Cash and cash equivalents	10,385
Trade payables and accruals	-
Gross balance sheet exposure	10,385

The following significant exchange rates applied during the year:

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

NOTES TO THE FINANCIAL STATEMENTS

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Sensitivity analysis

A 5% strengthening of the AUD against the USD for the 12 months to 30 June 2021 and 30 June 2020 would have decreased equity and pre-tax profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant:

	Consolidated	
	Equity $000	Profit and loss $000
30 June 2021		
USD	(631)	(631)
30 June 2020		
USD	(719)	(719)

A 5% weakening of the AUD against the USD for the 12 months to 30 June 2020 and 30 June 2019 would have increased equity and pre-tax profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant:

	Consolidated	
	Equity $000	Profit and loss $000
30 June 2021		
USD	698	698
30 June 2020		
USD	795	795

(f) Liquidity risk

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

28. FAIR VALUE MEASUREMENT

Fair value hierarchy

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

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

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

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

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

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

There were no transfers between levels during the financial year.

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

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

NOTES TO THE FINANCIAL STATEMENTS

29. PARENT INFORMATION

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

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

Parent Contingencies

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

Parent capital and other commitments

(a) Exploration expenditure commitments

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

NOTES TO THE FINANCIAL STATEMENTS

29. PARENT INFORMATION (CONTINUED)

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

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

(b) Capital expenditure commitments

Data licence commitments	560	580

30. CONTINGENT ASSETS AND LIABILITIES

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

31. BASIS OF PREPARATION OF THE FINANCIAL REPORT

(a) Statement of compliance

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

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

(b) Adoption of new and amended Accounting Standards

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

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

(c) Basis of measurement

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

NOTES TO THE FINANCIAL STATEMENTS

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

(d) Functional currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates (the "functional" currency). The consolidated financial statements are presented in Australian dollars which is the Company's functional and presentation currency.

(e) Use of estimates and judgements

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

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

Exploration and evaluation expenditures

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

Key judgement – functional currency

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

Key judgement – joint control

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

Key judgements – other

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

(f) Rounding Off

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

NOTES TO THE FINANCIAL STATEMENTS

32. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

Controlled entities

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2021. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

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

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

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

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Joint Operations

The Group's shares of the assets, liabilities, revenue and expenses of joint operations have been included in the appropriate line items of the consolidated financial statements. Details of the Group's interests are provided in Note 14.

Joint Ventures

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

(b) Income tax

Current income tax

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

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

Deferred tax

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Tax consolidation

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

(c) Property, plant and equipment

Recognition and measurement

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

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

Impairment

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

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

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

Depreciation

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

Property, plant and equipment: 10% to 33%

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Exploration and evaluation

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that the Group's rights of tenure to the area are current and that the costs are expected to be recouped through the successful development of the area, or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Each area of interest is assessed for impairment to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Impairment testing is carried out in accordance with Note 30(e).

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

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

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

(e) Recoverable amount of non-financial assets and impairment testing

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

Recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is the present value of the future cash flows expected to be derived from the asset or cash generating unit. In estimating value in use, a pre-tax discount rate is used which reflects the current market assessments of the time value of money and the risks specific to the asset. Any resulting impairment loss is recognised immediately in the income statement.

For the purposes of impairment testing assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

(f) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial instruments

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

i) Financial assets

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

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

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

Subsequent measurement

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

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

Financial assets at amortised cost (debt instruments)

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets at fair value through profit or loss

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

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

Derecognition

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

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

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

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

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

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

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

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

ii) Financial liabilities

Initial recognition and measurement

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

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

Derecognition

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

iii) Offsetting of financial instruments

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

NOTES TO THE FINANCIAL STATEMENTS

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Segment reporting

The Group reports one segment, oil and gas exploration, development and production, to the chief operating decision maker, being the board of Carnarvon Petroleum Limited, in assessing performance and determining the allocation of resources.

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

(i) Foreign currency

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates (the "functional" currency). The consolidated financial statements are presented in Australian dollars which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the exchange rate at balance date. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Foreign operations

The financial performance and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at exchange rates prevailing at balance date
- income and expenses are translated at average exchange rates for the period

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve as a separate component of equity. These differences are recognised in the income statement upon disposal of the foreign operation.

(j) Share capital

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

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Employee benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Share based payments

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

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

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

(l) Earnings per share

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

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

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

(m) Cash and cash equivalents

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

NOTES TO THE FINANCIAL STATEMENTS

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Goods and services tax

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

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

(o) Finance income and expenses

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

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

(p) Investment in joint ventures

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

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

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

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

(q) New Accounting Standards for Application in Future Periods

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2021. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below:

NOTES TO THE FINANCIAL STATEMENTS

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

NOTES TO THE FINANCIAL STATEMENTS

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

NOTES TO THE FINANCIAL STATEMENTS

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

NOTES TO THE FINANCIAL STATEMENTS

32. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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