

## 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 2020, and the auditor's report thereon.

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

## Directors

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



### **Peter J Leonhardt**

*Chairman  
FCA, FAICD (Life)*

Appointed as a director on 17 March 2005 and appointed Chairman in April 2005.

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

During the past three years Mr Leonhardt has served as a director of CTI Logistics Limited (from August 1999). He was previously a foundation Chairman of Voyager Energy Limited until its agreed acquisition by ARC Energy Limited. Mr Leonhardt is also a director of the Cancer Research Trust and retired as a director of The Harry Perkins Institute of Medical Research in April 2016 following 17 years' service.



### **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.

## DIRECTORS' REPORT



### **William (Bill) A Foster**

*Non-Executive Director  
BE (Chemical)*

Appointed as a director on 17 August 2010.

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 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).

Mr Foster is Carnarvon's Lead Independent Director, Chairman of the Audit and Risk Committee and a member of the Remuneration and Nomination Committee.



### **Peter Moore**

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

Appointed as a director on 18 June 2015.

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

During the past three years Dr Moore served as a non-executive Director of Central Petroleum Ltd (retired 2018) and Beach Energy Limited (since 2017).

Dr Moore is a member of the Audit and Risk Committee and the Remuneration and Nomination Committee.

# DIRECTORS' REPORT



## **Gavin Ryan**

*Non-Executive Director  
LLB (Hons), 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 dealing, production sharing contracts and petroleum project construction contracts.

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

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



## **Company Secretary**

Mr Thomson Naude (pictured top) 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	10	10
WA Foster	10	10
AC Cook	10	10
P Moore	10	10
SG Ryan	10	10

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

(b) Number of meetings attended

## Audit and Risk Committee

### *Names and qualifications of Audit and Risk Committee members*

The Committee is to include at least 3 members from 1 July 2009. Current members of the committee are Mr Foster (Chairman of the Audit and Risk Committee), Dr Moore and Mr Ryan. Qualifications of Audit and Risk Committee members are provided in the Directors section of this directors' report.

### **Audit and Risk Committee meetings**

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

	(a)	(b)
WA Foster	2	2
P Moore	2	2
SG Ryan	2	2

(a) Number of meetings held during period of office

(b) Number of meetings attended

## Remuneration Report (Audited)

### Overview

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

Carnarvon's business is such that a relatively small number of Executives can generate significant returns for shareholders.

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

During the year, the Board determined that the Company's executives outperformed on a number of their set goals across a number of key metrics as outlined below. Notwithstanding these achievements, given the current market conditions, particularly low oil prices driven by COVID-19, the Board exercised its discretion and did not provide for an award to Executives under the short and long-term incentive plans as outlined below.

#### *Short term incentive plan ("STIP"):*

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

- Dorado-3 appraisal success
- Successful Dorado flow test in the Caley and Baxter formations
- Dorado development commenced concept select workflows
- Buffalo PSC finalised and signed
- Establishment of operations in Timor-Leste
- Preparedness to operate Buffalo materially advanced
- Business Management System, risk management and processes advanced for enhanced business operations
- Significant development of the Company's Governance framework

Despite the achievement of several key strategic objectives and hurdles, the Board exercised its discretion in light of the current market conditions and did not make an award to Executives under the short-term incentive plan.

#### *Long term incentive plan ("LTIP"):*

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

- Share price decline during the financial year was 65% which was in the bottom half of the Company's peer group's performance;
- Accordingly, the Board resolved not to approve an entitlement to Executives despite a positive assessment of their contribution to achieving the objectives. The ESP aggregate limit under this component is 0.75% of total issued capital in any given year. There is also a total ESP aggregate limit of 5% for all years provided for under the shareholder approved ESP scheme;
- Important strategic measurable objectives were achieved during the year and significant progress was made towards to the Company's strategy which ordinarily would have entitled Executives to receive an LTIP award, also to the maximum of 0.75% of total issued capital;
- However, the Board exercised its judgement and resolved not to award any shares under the measurable objectives' component on the grounds that it would not be appropriate due to current market conditions.

# DIRECTORS' REPORT

## *Key Management personnel*

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

The directors and other Key Management Personnel of the Group for the financial year were:

<b>Non-executive Directors</b>	<b>Position</b>	<b>Dates</b>
Mr PJ Leonhardt	Chairman	Full reporting period
Mr WA Foster	Non-executive Director	Full reporting period
Mr SG Ryan	Non-executive Director	Full reporting period
Dr PS Moore	Non-executive Director	Full reporting period

<b>Executive KMP</b>	<b>Position</b>	<b>Dates</b>
Mr AC Cook	Managing Director	Full reporting period
Mr PP Huizenga	Chief Operating Officer	Full reporting period
Mr TO Naude	Chief Financial Officer	Full reporting period

## *Principles of remuneration*

The Board is responsible for the Company's remuneration policy and practices. To assist the Board with this, it has established the Remuneration & Nomination Committee (Committee). The Committee's role is to review and make recommendations to the Board on remuneration policies and practices and to ensure that the remuneration policies and practices are consistent with the strategic goal of the Board to build and deliver value to shareholders over the long term.

The Committee assesses the appropriateness of the nature and amount of compensation on an annual basis with reference to industry and market conditions, and with regard to individual performance and the Company's financial and operational results. Such assessments are also made after referring to the recommendations of specialist consultancy firms, industry groups, government and shareholder bodies. The Committee obtains, when required, independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally.

# DIRECTORS' REPORT

The Committee determines its compensation practices in terms of their effectiveness to:

- Provide a strategic and value-based reward for executives who make a contribution to the success of the Company;
- Align executives' interests with the interests of shareholders;
- Promote the retention of executives; and
- Promote the long-term success of the Company;

Remuneration arrangements are made having regard to the number and composition of Executives in the business and the stage of development of the Company. Remuneration arrangements include a mix of fixed and performance-based remuneration. Performance based remuneration comprises short-term and long-term incentive schemes. Short-term incentive arrangements are designed to incentivise superior individual achievement over a period of twelve months and typically comprise cash payments or share issues, as the Committee considers appropriate. Long-term incentive arrangements are share-based and designed to be simple, clear and strongly aligned between shareholder and executive interests over the medium to longer term.

Remuneration structures take into account the overall level of compensation for each director and executive, the capability and experience of the directors and senior executives, the executives' ability to control the financial performance of the relative business segment, the Group's performance (including earnings and share price), and the amount of any incentives within each executives' remuneration.

The Remuneration & Nomination Committee, is of the view that the Company's ESP is an effective structure to meet its objectives and attract, retain and motivate appropriately qualified and experienced executives.

In considering the Group's performance and impact on shareholder wealth, the Board has had regard to the following in respect of the current financial year and the previous four years.

	30 June 2016	30 June 2017	30 June 2018	30 June 2019	30 June 2020
Share price as at 30 June each year	\$0.100	\$0.079	\$0.15	\$0.60	\$0.195
Year on year change in the share price	(13%)	(21%)	90%	300%	(68%)

The Board sets objectives and targets for its Executives for each financial year. The quantum of short-term incentive payments and long-term incentive payments to be made to Executives are determined by the extent to which they meet achieve strategic objectives set by the board. Given many of these objectives are closely linked to strategy, it is not possible for the Company to publicly disclose the objectives until they are fully achieved.

These objectives are summarised, to the extent possible in the following pages.

# DIRECTORS' REPORT

## *Non-executive directors*

Shareholders approve total non-executive directors' fees and the Committee is responsible for the allocation of those fees amongst the individual members of the Board.

Total remuneration for all non-executive directors, last voted upon by shareholders at a General Meeting in November 2018, is not to exceed \$600,000 per annum.

A non-executive director's base fee is \$100,000 per annum, the Chairman of the board receives \$150,000 per annum, the Chairman of the Audit & Risk Committee, the Chairman of the Remuneration & Nomination Committee and the Lead Independent Director all receive an additional \$5,000 for each of these roles. These fees were last increased with effect from 1 January 2020. Non-executive directors do not receive any performance-related remuneration. The Company does not have any terms or schemes relating to incentives or retirement benefits for non-executive directors.

## *Other Key Management Personnel*

### *Fixed compensation*

Fixed compensation consists of base compensation as well as employer contributions to superannuation funds.

### *Short-term incentive scheme*

Short-term incentives are assessed by the Remuneration & Nomination Committee based on three components:

1. The performance of the business as a whole;
2. The extent to which the Executive team achieves strategic objectives set by the board; and
3. The individual performances of each Executive.

The value of any short-term incentive paid in cash is restricted to a maximum 50% of an individual's Fixed Compensation.

The Remuneration & Nomination Committee is not obliged to make incentive payments where there are material adverse changes in the circumstances of the Company.

Non-executive directors are not entitled to participate in the short-term incentive scheme.

Any short-term incentives awarded during the period are included in remuneration, and fully vested to each named executive and key management personnel during the period.

The strategic objectives that were met during the 30 June 2020 financial year were as follows:

- Dorado-3 appraisal success
- Successful Dorado flow test in the Caley and Baxter formations
- Dorado development commenced concept select workflows
- Buffalo PSC finalised and signed
- Establishment of operations in Timor-Leste
- Preparedness to operate Buffalo materially advanced
- Business Management System, risk management and processes advanced for enhanced business operations
- Significant development of the Company's Governance framework

Given many of objectives are closely linked to strategy, it is not possible for the Company to publicly disclose all of the objectives until they are fully achieved.

## *Long-term incentive scheme - Employee Share Plan*

The Carnarvon Employee Share Plan (“ESP”) was originally implemented following shareholder approval at the 1997 Annual General Meeting (“AGM”) and was last updated and ratified by shareholders at the AGM on 9 November 2018.

The purpose of the ESP is to attract, retain and motivate those who have been invited by the Board to participate in the ESP and align their interests with all other shareholders by encouraging performance that increases shareholder wealth through long-term growth.

The plan only rewards long term share price growth, rather than relative performance. The Plan shares are only of value to the holder of the shares to the extent to which the share price increases to exceed at least 120% of the share price when the offer is made to the employee. Furthermore, the Plan does not give rise to a tax liability on issue thus encouraging long-term holdings.

The Company’s Employee Share Plan is considered to be an effective way to align the objectives of management with the interests of shareholders.

Each year the maximum numbers of Plan shares that can be awarded is 1.5% of the Company’s total issued capital which is broken down into two components.

The award of Plan shares is based on two components:

1. Relative total shareholder return (maximum of 0.75% of total issued capital); and
2. The extent to which the executive team achieves strategic objectives set by the board (maximum of 0.75% of total issued capital).

The relative total shareholder return component as awarded on the following basis:

<u>CVN TSR compared to peers</u>	<u>% of EPS award</u>
Less than 50%	Nil
50%	25%
50% to 90%	Pro rata
90% and above	Full amount

For the purposes of the TSR evaluation, Carnarvon’s peer group is Australis Oil and Gas Ltd, Buru Energy Ltd, Central Petroleum Ltd, Cooper Energy Ltd, Cue Energy Resources Ltd, FAR Ltd, Horizon Oil Ltd, Karoon Gas Australia Ltd, Otto Energy Ltd, Senex Energy Ltd, 88E Ltd, Strike Energy Ltd and Tap Oil Ltd.

# DIRECTORS' REPORT

In the 30 June 2020 financial year, the Company was in the lowest 50% TSR range in relation to its peers with a share price decrease of 65%. As such, the relative TSR outcome was 0% on the basis outlined above. Therefore, the pool of plan shares on the relative TSR basis was nil.

The board has set a number of long-term measurable objectives for the executive team. Given the sensitive, strategic and ongoing nature of these objectives the Company is not in a position to fully disclose these at this point in time. The long-term objectives do however relate to:

- Progress under the Company's traditional model of acquiring permits, applying technical expertise with a view to attract a farm in partner to advance the project;
- Progress in the Dorado project (multiple objectives);
- Progress in the Buffalo project (multiple objectives); and
- Numerous corporate objectives which remain confidential.

While the executive team achieved many of the strategic objectives during the 30 June 2020 financial year, the Board applied a reasonableness judgment over the "measurable objectives" component and due to current market conditions, resolved not to award any additional ESP shares under this section. Therefore, no Plan shares were awarded during the year.

The principal provisions of the Plan include:

- The Plan is available to all executive Directors, employees or consultants of the Company or any of its subsidiaries ("Eligible Person");
- Non-Executive Directors are not eligible to participate in the Plan;
- The Company may at any time, in its absolute discretion, make an offer to an Eligible Person;
- The number of Plan Shares issued to any Eligible Person and the issue price is to be determined by the directors of the Company;
- The issue price is to be determined by the Board, provided that the issue price is at least 120% of the market price of the Company's Shares, being the weighted average sale price of Shares sold through the ASX on the 5 trading days prior to the proposed date of an offer under the Plan.;
- The offer may be accepted by an Eligible Person or an associate of that Eligible Person, within the given acceptance period;
- The person accepting the offer ("Participant") will be taken to have agreed to borrow from the Company on the terms of the loan agreement referred to below an amount to fund the purchase of the Plan Shares;
- The Plan Shares will rank pari passu with all issued fully paid ordinary shares in respect of voting rights, dividends and entitlement to participate in any bonus or rights issues;
- Plan participants may not dispose of any ESP Shares within two years of the issue date but, subject to repayment of any associated loan (equal to the issue price), participants may dispose of up to 25% of their ESP Shares after two years, 50% after three years, 75% after four years and 100% after five years.
- Until the loan to the Participant is fully repaid, the Company has control over the disposal of the Plan Shares. Once the loan is repaid in full, the Participant may deal with the Plan Shares as they wish;
- The aggregate number of Plan Shares and other shares and options issued in the previous 5 years under any other employee incentive scheme of the Company must not exceed 5% of the issued capital of the Company; and
- Applications will be made as soon as practicable after the allotment of the Plan Shares for listing for quotation on ASX.

The principal provisions of the loan agreement include:

- The amount lent will be an advance equal to the issue price of the Plan Shares multiplied by the number of Plan Shares issued;
- The loan can be repaid at any time but the Participant must pay any amount outstanding to the Company within 30 days of termination of the Eligible Person's employment. All dividends declared and paid on the Plan Shares will be applied towards the repayment of the advance and there is no interest on the advance;
- The maximum liability in respect of the loan will be the allocated price of the Plan Shares;
- A holding lock will be placed on the Plan Shares until the loan is fully repaid.

*Loans made under the ESP involve no cash outlay by the Company.*

A complete copy of the rules of the ESP (which incorporates the terms of the loan agreement) is available for inspection by shareholders (free of charge) at the Company's Registered Office or from the Company Secretary.

Plan Shares are approved by the Remuneration & Nomination Committee based upon the assessed performance of each person against their job specifications and the recommendations of the Chief Executive Officer, and in the case of executive Directors, with the approval of shareholders.

### **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.

### **Equity instruments**

#### (i) Shares

There were no shares in the Company issued as compensation to key management personnel during the reporting period, other than Plan Shares awarded to the Managing Director in the 2019 financial year, which were subsequently approved by shareholders at the AGM on 15 November 2019 then issued following this approval.

#### (ii) Plan Shares

During the current financial year, the following Plan Shares, which are in-substance options, were granted to Executive Officers of the Company:

<b>Executive Officers</b>	<b>Number of plan shares issued</b>	<b>Grant date</b>	<b>Exercise price per plan share</b>	<b>Fair value at grant date</b>
AC Cook*	1,972,567*	15/11/2019*	\$0.69*	\$0.146*

\* Awarded in 2019 financial year and approved by shareholders at the AGM on 15 November 2019.

The exercise price for each issue above was calculated based on at least a 20% premium on the 5-day weighted average closing price prior to the date of offer. The purchases were funded by interest-free loans with a limited recourse security over the Plan Shares and subject to the detailed rules of the ESP. The shares remain subject to the disposal restrictions contained in the Plan Rules summarised above.

# DIRECTORS' REPORT

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

## 2020

Grant date	Assumed expiry date	Fair value per option	Exercise price	ASX quoted price of shares at grant date	Expected volatility	Risk free interest rate	Dividend yield
15/11/2019	26/06/2024	\$0.146	\$0.69	\$0.355	68%	0.75%	0%

### (iii) Options

There were no options over shares in the Company issued as compensation to key management personnel during the reporting period. No options have been issued since the end of the financial year.

### *Remuneration & Nomination Committee*

The Committee is to include at least 3 members. Members of the committee during the 30 June 2020 financial year were Mr Ryan (Chairman of Remuneration and Nomination Committee), Mr Foster and Dr Moore. Qualifications of Remuneration & Nomination Committee members are provided in the Directors section of this directors' report.

### *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
WA Foster	3	3
P Moore	3	3

(a) Number of meetings held during period of office

(b) Number of meetings attended

The Remuneration & Nomination Committee is responsible for the compensation arrangements for directors and executives of the Company. The Remuneration & Nomination Committee considers compensation packages and policies applicable to the executive directors, senior executives and non-executive directors' fees. In certain circumstances these include incentive arrangements including employee share plans, incentive performance packages, and retirement and termination entitlements.

Name	Short Term		Post-Employment	Long Term	Total (\$)	Proportion of remuneration performance related %	Value of shares/options as a % of remuneration
	Salary and fees (\$)	Short term cash bonus (\$)	Superannuation contributions (\$)	Shares/Options (\$)			
<b>Directors</b>							
<i>Non-Executive</i>							
Mr PJ Leonhardt (Chairman)							
2020	\$136,594	-	-	-	\$136,594	-	-
2019	\$120,819	-	-	-	\$120,819	-	-
Mr WA Foster <sup>1</sup>							
2020	\$97,848	-	-	-	\$97,848	-	-
2019	\$83,474	-	-	-	\$83,474	-	-
Mr SG Ryan <sup>2</sup>							
2020	\$94,009	-	-	-	\$94,009	-	-
2019	\$72,861	-	-	-	\$72,861	-	-
Dr P Moore							
2020	\$90,170	-	-	-	\$90,170	-	-
2019	\$78,795	-	-	-	\$78,795	-	-
<i>Executive</i>							
Mr AC Cook (Chief Executive Officer)							
2020	\$642,120	-	\$14,380	\$287,459 <sup>3,4</sup>	\$943,959	30.5%	30.5%
2019	\$621,438	\$296,705	\$33,903	\$346,912 <sup>3,5</sup>	\$1,298,958	49.5%	26.7%
<b>Executives</b>							
Mr PP Huizenga (Chief Operating Officer)							
2020	\$583,389	-	\$13,209	-	\$596,598	-	-
2019	\$572,154	\$271,888	\$39,249	\$580,834 <sup>3</sup>	\$1,464,125	58.2%	39.7%
Mr TO Naude (Chief Financial Officer)							
2020	\$324,757	-	\$12,323	-	\$337,080	-	-
2019	\$269,945	\$145,181	\$36,799	\$310,150 <sup>3</sup>	\$762,075	59.7%	40.7%
Total compensation: key management personnel							
2020	\$1,968,886	-	\$39,912	\$287,459	\$2,296,258	12.5%	12.5%
2019	\$1,819,486	\$713,774	\$109,951	\$1,237,896	\$3,881,107	51.5%	32.7%

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

<sup>1</sup> Mr Foster resigned as Chairman of the Remuneration and Nomination Committee on 12 April 2019.

<sup>2</sup> Mr Ryan appointed as a non-executive director on 30 July 2018 and appointed as Chairman of the Remuneration and Nomination Committee on 12 April 2019.

<sup>3</sup> Accounting cost as determined using the Black-Scholes Option Pricing Model.

<sup>4</sup> 2020 share-based payments to Mr Cook relate to 2019 financial year remuneration approved at the AGM on 15 November 2019 and issued 25 November 2019.

<sup>5</sup> 2019 share-based payments to Mr Cook relate to 2018 financial year remuneration approved at the AGM on 9 November 2018 and issued 16 November 2018.

# DIRECTORS' REPORT

## 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:

2020	Held at 1 July 2019	Net acquired/ (sold)	Award under Employee Share Plan	Received on exercise of options	Held at 30 June 2020
<b>Directors</b>					
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
<b>Executives</b>					
PP Huizenga	11,976,196	100,000	-	-	12,076,196
TO Naude	4,019,357	55,000	-	-	4,074,357

## Plan shares held by key management personnel

Included in the above are plan shares held by key management personnel held under the ESP loan scheme. 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:

2020	Held at 1 July 2019	Granted as compensation	Employee Share Plan cancellations	Exercised	Held at 30 June 2020
<b>Directors</b>					
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	-	-	-	-	-
<b>Executives</b>					
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:

2020	Held at 1 July 2019	Granted as compensation	Acquired/(sold)	Exercised	Held at 30 June 2020
<b>Directors</b>					
WA Foster	500,000 <sup>1</sup>	-	-	-	500,000
P Moore	500,000 <sup>1</sup>	-	-	-	500,000

<sup>1</sup> All options are vested and exercisable at the end of the reporting period.

## End of Remuneration Report

## Non-audit services

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

Details of the amounts paid or payable to the auditor of the Group for audit services provided during the year are set out below:

<u>Audit Services</u>	<u>Consolidated 2020 (\$)</u>
<i>Auditors of the Company:</i>	
Ernst & Young	67,451

## Directors' interests

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

<u>Name</u>	<u>Ordinary Shares</u>	<u>Options over ordinary Shares</u>
PJ Leonhardt	17,750,000	-
AC Cook	15,938,797	-
WA Foster	925,938	500,000
P Moore	464,232	500,000
SG Ryan	267,701	-

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

## Diversity

For the year ending 30 June 2020, women made up 31% of the Company's general work force. Currently, there are no women on the board or in senior executive positions.

The Board has set the diversity objective of providing mentoring and support to female employees for the 2020 financial year.

All employees receive ongoing training and professional support in the development of their career and no diversity distinction exists for these activities.

## Likely developments

The likely developments for the 2020 financial year are contained in the operating and financial review as set out on pages 6 to 30.

## Environmental regulation and performance

The Group's oil and gas exploration and development activities are concentrated in Western Australia. Environmental obligations are regulated under both State and Federal Law in Western Australia. No significant environmental breaches have been notified by any government agency during the year ended 30 June 2020.

## 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 (2019: 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 2020.

## Principal activities

During the course of the 2020 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/](http://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 29.

## 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 2020 is set out on pages 6 to 29 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

there is no other matters or circumstance has arisen since 30 June 2020 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.

A handwritten signature in black ink, appearing to read 'PJ Leonhardt', with a stylized flourish at the end.

**PJ Leonhardt**  
Director

Perth, 27 August 2020