NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

1. Reporting entity

The consolidated financial report of Carnarvon Petroleum Limited ('Company') for the financial year ended 30 June 2020 comprises the Company and its controlled entities (the "Group").

The separate financial statements of the parent entity, Carnarvon Petroleum Limited, have not been presented within this financial report as permitted by *The Corporations Act 2001*.

Carnarvon Petroleum Limited is a for profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

The financial report was authorised for issue by the directors on 27 August 2020.

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

2. Interest income

	Consolidated 2020 $000	Consolidated 2019 $000
Interest revenue	1,545	1,401
	1,545	1,401

3. Other expenses

The following expenses are included in administrative and employee benefit expenses in the consolidated income statement:

	2020 $000	2019 $000
Depreciation – property, plant and equipment	(29)	(34)
Depreciation – leases	(203)	-
Rental premises	(19)	(287)
Defined contribution – superannuation expense	(223)	(368)

4. Auditors' remuneration

	2020 $	2019 $
Audit and review services:		
Ernst & Young	(67,451)	(67,902)
Tax services:		
Deloitte	(114,839)	-
PWC	(94,700)	(90,670)
Miranda & Associados	(7,243)	-

5. Loss per share

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

	2020 Number of shares	2019 Number of shares
Issued ordinary shares at 1 July	1,350,824,248	1,189,888,259
Effect of shares issued	212,130,000	63,787,832
Weighted average number of ordinary shares 30 June (basic)	1,562,954,248	1,253,676,091
Effect of share options on issue [1]	-	-
Weighted average number of ordinary shares 30 June (diluted)	1,562,954,248	1,254,676,091

	2020 $	2019 $
Loss used in calculating basic and diluted loss per share	(4,317,000)	(8,021,000)

[1] As the consolidated entity incurred a loss for the year ended 30 June 2020 and 2019, the effect of options on issue is considered to be antidilutive and thus not factored in determining the diluted earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

6. Taxes

	Consolidated 2020 $000	Consolidated 2019 $000
(a) Income tax expense		
Current Income tax expense		
Current Income tax expense	-	-
Adjustment for prior period	445	-
	445	-
Deferred tax (income)		
Origination and Reversal of temporary differences-Current	-	-
Adjustment for prior period	(445)	-
	(445)	-
Total income tax expense	-	-
Numerical reconciliation between pre-tax profit and income tax expense:		
(Loss)/profit for the period	(4,137)	(8,022)
Total income tax expense	-	-
(Loss)/profit excluding income tax	(4,137)	(8,022)
Income tax using the statutory rate of 27.5%	(1,138)	(2,206)
Non-deductible expenditure	275	-
R&D grant not assessable	-	-
Settlement of deferred consideration	-	-
Share based payment expense	79	811
Entertainment	3	4
Effect of foreign tax jurisdiction	(13)	-
Revaluation of investments on capital account	(112)	-
Current year tax benefit not brought to account	906	1,391
	-	-
Under(over) provision in prior years	-	-
Income tax expense	-	-

6. Taxes (continued)

	Consolidated	
	2020 $000	2019 $000
(b) Current tax liability	-	-

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

	2020 $000	2019 $000
Deferred tax liabilities		
Capitalised exploration deducted immediately	33,350	24,439
Unrealised foreign exchange gains	196	681
Gross deferred tax liabilities	33,546	25,120

	2020 $000	2019 $000
Deferred tax assets		
Carry forward revenue tax losses	45,950	36,506
Property, plant and equipment	130	149
Share issue costs	238	236
Provisions	222	182
Accruals	23	24
Lease liability and right-of-use-assets	9	-
Gross deferred tax assets	46,572	37,096
Set-off of deferred tax liabilities pursuant to set-off provisions	(33,546)	(25,120)
Unrecognised deferred tax asset	(13,026)	(11,976)
Net deferred tax assets	-	-

6. Taxes (continued)

(d) Unrecognised tax losses and PRRT credits

	2020 $000	2019 $000
Total Australian tax losses	167,091	132,750
Net unrecognised Australian tax losses	47,366	43,548
Timor-Leste tax losses	514	-

The Group has not recognised a deferred tax asset for its Australian or Timor-Leste tax losses.

Unaugmented PRRT losses	135,884	103,144

The Group has not recognised a deferred tax asset for its PRRT losses.

7. Other receivables

	Consolidated	
	2020 $000	2019 $000
Current		
Other receivables	63	90
Cash held as security	218	218
	281	308

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

8. Other financial assets

	2020 $000	2019 $000
Financial assets at FVTPL	1,037	629

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	629	2,297
Fair value movements	408	(1,668)
Carrying value at the end of period	1,037	629

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 2020 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.

9. Property, plant and equipment

	Consolidated	
	2020 $000	2019 $000
Fixtures and fittings		
Cost:		
Balance at beginning of financial year	563	564
Additions	47	44
Disposals	-	(45)
Balance at end of financial year	610	563
Depreciation and impairment losses:		
Balance at beginning of financial year	519	529
Additions	-	-
Disposals	-	(45)
Depreciation charge for year	29	35
Balance at end of financial year	548	519
Carrying amount opening	44	35
Carrying amount closing	62	44

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

10. Other assets

	Consolidated	
	2020 $000	2019 $000
Current		
Deposits and prepayments	814	459

11. Rights-of-use assets and Lease liabilities

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

Rights-of- use asset	Consolidated	
	2020 $000	2019 $000
Balance at beginning of financial year	999	-
Additions	-	-
Depreciation expense	(203)	-
Balance at end of financial year	796	-

Lease liabilities	Consolidated	
	2020 $000	2019 $000
Balance at beginning of financial year	999	-
Additions	-	-
Interest expense	40	-
Lease payments	(209)	-
Balance at end of financial year	830	-
Current lease	186	-
Non-current lease	644	-
Balance at end of financial year	830	-

The following are the amounts recognised in profit or loss:	Consolidated	
	2020 $000	2019 $000
Depreciation – leases	(203)	-

12. Exploration and evaluation expenditure

	Consolidated 2020 $000	Consolidated 2019 $000
Cost:		
Balance at beginning of financial year	88,869	53,443
Additions	37,196	38,129
Well control insurance refund	(1,180)	(2,703)
R&D refundable tax offset	(1,089)	-
Exploration expenditure written off	(1,174)	-
Balance at end of financial year	122,622	88,869

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

Written off exploration expenditure relates to the relinquishment of the WA-524-P permit. Following the completion of the primary term commitments, the Company elected to return the permit back to the regulator. Whilst the Company's technical work identified some prospectivity, these were not deemed to be material within the Company's portfolio.

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.

13. Joint operations

The Group has the following interests in joint operations:

Joint operation	Principal activities	Ownership interest % 2020	Ownership interest % 2019
Western Australia			
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	70%	28.5%

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

For the year ended 30 June 2020

14. Trade and other payables

	Consolidated 2020 $000	Consolidated 2019 $000
Current		
Trade payables	782	1,629
Director's fee payable	116	68
Non-trade payables and accrued expenses	49	79
	947	1,776

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

15. Capital and reserves

	Company 2020 Number of shares	Company 2019 Number of shares
Contributed equity		
Balance at beginning of financial year	1,350,824,248	1,189,888,259
Issued for cash	211,583,102	151,600,000
Employee Share Plan issues	1,972,567	9,335,989
Balance at end of financial year	1,564,379,917	1,350,824,248

	Company 2020 $000	Company 2019 $000
Issued capital		
Balance at beginning of financial year	166,081	115,508
Reserve employee shares	1,040	2,504
Exercise of employee shares	64	601
Proceeds from capital raise	78,671	47,468
Balance at end of financial year	245,856	166,081

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.

15. Capital and reserves (continued)

	Company 2020	Company 2019
	Number of shares	
Reserve shares (plan shares)		
Balance at beginning of financial year	56,145,486	53,602,608
Employee Share Plan issues	1,972,567	9,335,989
Employee Share Plan repaid	(725,119)	(6,793,111)
Balance at end of financial year	57,392,934	56,145,486

	Company 2020 $000	Company 2019 $000
Reserve shares (plan shares)		
Balance at beginning of financial year	6,780	4,276
Employee Share Plan issues	1,040	2,504
Balance at end of financial year	7,820	6,780

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

For the year ended 30 June 2020

16. Reconciliation of cash flows from operating activities

	Consolidated	
	2020 $000	2019 $000
(a) Cash flows from operating activities		
Loss for the year	(4,137)	(8,021)
Adjustments for:		
Equity settled share based payment expense	287	2,949
Depreciation	29	34
Fair Value Movement of financial asset	408	(1,668)
Foreign exchange gain	928	1,098
Exploration expenditure write-off	(1,174)	-
Operating loss before changes in working capital and provisions:	(3,659)	(5,608)
Changes in assets and liabilities:		
Decrease in other receivables	27	16
(Increase)/Decrease in other assets	(354)	96
(Decrease)/Increase in trade and other payables	(829)	874
Increase in provisions and employee benefits	148	79
Net cash flows used in operating activities	(4,667)	(4,543)
(b) Reconciliation of cash and cash equivalents		
Cash at bank and at call	36,541	25,329
Cash on deposit	77,091	48,571
	113,632	73,900

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

Restricted cash of $218,000 consolidated is included under other receivables (2019: $218,000 consolidated), see Note 7.

17. 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	
	2020 $000	2019 $000
Less than one year	650	793
Between one and five years	500	493
	1,150	1,286
(b) Capital expenditure commitments		
Data licence commitments	580	483
(c) Operating leases		
Less than one year	-	196
Between one and five years	-	845
	-	1,041

The property lease is a non-cancellable lease with the five-year team, with rent payable in advance.

Contingent rental provisions within the lease agreement require that minimum lease payments shall be increased by 4% per annum.

This property lease for the current reporting period is outlined in Note 11.

18. 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

For the year ended 30 June 2020

19. Employee benefits

	Consolidated 2020 $000	Consolidated 2019 $000
(a) Employee benefits charged to P&L		
Short term:		
Salary and wages (including super)	4,667	4,359
Allocated staff costs to projects	(3,614)	(3,068)
Short term cash bonus	-	1,515
Long term:		
Share based payment expense	287	2,949
Total Employee benefits	1,340	5,755

	Consolidated 2020 $000	Consolidated 2019 $000
(b) Employee benefits liabilities		
Current:		
Liability for annual leave and long service leave	649	378
Non-Current:		
Provision for long service leave	160	283
Total Employee benefits	809	661

Employee Share Plan

Under the terms of the Carnarvon 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.

19. 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 2020	WAEP 2020	Number 2019	WAEP 2019
Outstanding at 1 July	56,145,486	0.24	53,602,608	0.15
Granted during the year	1,972,567	0.69	9,335,989	0.62
Forfeited during the year	-	-	-	-
Exercised during the year	725,119	0.09	6,793,111	0.09
Expired during the year	-	-	-	-
Outstanding at 30 June	57,392,934	0.25	56,145,486	0.24
Exercisable at 30 June	57,392,934	0.25	56,145,486	0.24

Shares 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 2020	Key management personnel 2019	Other employees 2020	Other employees 2019
Fair value at measurement date (cents)	14.6	30.9	-	32.1
Share price at date of issue (cents)	36	54	-	60
Exercise price (cents)	69	54	-	69
Expected volatility	68%	68%	-	68%
Expected life of ESP share	5 years	5 years	-	5 years
Expected dividends	Nil	Nil	-	Nil
Risk-free interest rate	1.5%	1.33%	-	1.25%
Share-based expense recognised	287,459	1,237,895	-	1,711,136

Further details of shares granted under the ESP to directors are set out in Note 22, and in the Remuneration Report set out on pages 35 to 44.

19. 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:

2020	Held at 1 July 2019	Granted as compensation	Acquired/(sold)	Exercised	Held at 30 June 2020
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 options held at 30 June 2020 were issued on 16 November 2015 and expire on 16 November 2020 for a maximum term of 5 years.

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

	Number 2020	WAEP 2020	Number 2019	WAEP 2019
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	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at 30 June	1,000,000	0.15	1,000,000	0.15
Exercisable at 30 June	1,000,000	0.15	1,000,000	0.15

The weighted average remaining contractual life for the share options outstanding as at 30 June 2020 was 5 months (2019: 1 year).

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

Fair value of share option and related assumptions	2020	2019
Fair value at measurement date (cents)	7.9	7.9
Share price at date of issue (cents)	12	12
Exercise price (cents)	15	15
Expected volatility	89%	89%
Expected life of options	5 years	5 years
Expected dividends	Nil	Nil
Risk-free interest rate	2.0%	2.0%
Share-based expense recognised	-	-

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

20. Related party disclosures

Ultimate parent

Carnarvon Petroleum Limited is the ultimate parent company.

Wholly-owned group transactions

During the reporting period there have been transactions between Carnarvon and its controlled entities and joint arrangements. Carnarvon only provided technical, accounting and administrative services to Carnarvon Petroleum Timor Unip Lda which was charged $847,000 (2019: $0). The Company provided accounting and administrative services to its other controlled entities for which it did not charge a management fee.

The carrying value of loans to controlled entities at 30 June 2020 was $1,893,000 (2019: $0). These loans are unsecured, non-interest bearing and have no fixed terms of repayment.

Other related party balances and transactions

At 30 June 2020, an amount of $116,250 (2019: $67,855) is included in Carnarvon and consolidated trade and other payables for outstanding director fees and expenses.

21. 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 financial information presented in the statement of cash flows is the same basis as that presented to the chief operating decision maker.

The capitalised exploration and evaluation expenditure reflected on the statement of financial position is in respect of exploration projects in 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

	2020 $000	2019 $000
Australia	121,273	88,869
Timor-Leste	1,349	-
	122,622	88,869

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

22. Key management personnel disclosures

(a) Key management personnel compensation

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

	Consolidated	
	2020 $000	2019 $000
Short term employee benefits	1,969	2,533
Post-employment benefits	40	110
Share-based payments	287	1,238
	2,296	3,881

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 35 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	
	2020 $000	2019 $000
Current		
Director's fee payable	116	68

22. 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:

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
Executives					
PP Huizenga	11,976,196	100,000	-	-	12,076,196
TO Naude	4,019,357	55,000	-	-	4,074,357

2019	Held at 1 July 2018	Net acquired/ (sold)	Award under Employee Share Plan	Received on exercise of options	Held at 30 June 2019
Directors					
PJ Leonhardt	17,750,000	-	-	-	17,750,000
WA Foster	737,302	113,636	-	-	850,938
AC Cook	12,499,917	-	1,238,108	-	13,738,025
P Moore	270,232	150,000	-	-	420,232
SG Ryan	-	229,240	-	-	229,240
Executives					
PP Huizenga	10,668,622	(500,000)	1,807,574	-	11,976,196
TO Naude	3,241,389	(187,228)	965,196	-	4,019,357

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

22. 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:

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	-	-	-	-	-
Executives					
PP Huizenga	11,976,196	-	-	-	11,976,196
TO Naude	3,992,512	-	-	-	3,992,512

2019	Held at 1 July 2018	Granted as compensation	Employee Share Plan cancellations	Exercised	Held at 30 June 2019
Directors					
PJ Leonhardt	3,000,000	-	-	-	3,000,000
WA Foster	-	-	-	-	-
AC Cook	9,734,917	1,238,108	-	-	10,973,025
P Moore	-	-	-	-	-
SG Ryan	-	-	-	-	-
Executives					
PP Huizenga	10,168,622	1,807,574	-	-	11,976,196
TO Naude	3,027,316	965,196	-	-	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:

2020	Held at 1 July 2019	Granted as compensation	Acquired/(sold)	Exercised	Held at 30 June 2020
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.

23. Consolidated entities

Name	Country of Incorporation	Ownership interest 2020	Ownership interest 2019
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%	-
Carnarvon Bedout 1 Pty Ltd	Australia	100%	-
Carnarvon Petroleum Timor Unip LDA	Timor-Leste	100%	-

24. Subsequent events

There are no other matters or circumstance which have 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

25. Financial risk management

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

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

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

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

25. Financial risk management (continued)

(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	
	2020	2019
Carrying amount (A$000)		
Financial assets – cash and cash equivalents	113,632	73,900
Weighted average interest rate (%)		
Financial assets – cash and cash equivalents	0.66%	1.63%

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

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 2019:

	Consolidated	
	Equity $000	Profit and loss $000
30 June 2020	281	280
30 June 2019	183	183

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 2019:

	Consolidated	
	Equity $000	Profit and loss $000
30 June 2020	(281)	(280)
30 June 2019	(183)	(183)

25. Financial risk management (continued)

(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 2020 or 30 June 2019 that were past due.

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

Credit risk further arises in relation to financial guarantees given to certain parties, refer to Note 25.

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	
	2020 $000	2019 $000
Carrying amount:		
Cash and cash equivalents	113,632	73,900
Other receivables	281	308
	113,913	74,208

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

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

	Gross 2020 $000	Impairment 2020 $000	Gross 2019 $000	Impairment 2019 $000
Not past due	281	-	308	-
	281	-	308	-

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

25. Financial risk management (continued)

(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 2020	
Cash and cash equivalents	10,385
Trade payables and accruals	-
Gross balance sheet exposure	10,385
30 June 2019	
Cash and cash equivalents	32,543
Trade payables and accruals	4
Gross balance sheet exposure	32,547

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
AUD to:	2020	2019	2020	2019
1 USD	1.489	1.424	1.454	1.423

Sensitivity analysis

A 5% strengthening of the AUD against the USD for the 12 months to 30 June 2020 and 30 June 2019 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 2020		
USD	(719)	(719)
30 June 2019		
USD	(1,549)	(1,549)

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 2020		
USD	795	795
30 June 2019		
USD	1,712	1,712

25. Financial risk management (continued)

(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 2020				
Non-derivative financial liabilities				
Trade and other payables	898	898	898	-
30 June 2019				
Non-derivative financial liabilities				
Trade and other payables	1,697	1,697	1,697	-

26. Fair value measurement

Fair value hierarchy

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

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

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

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

30 June 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

30 June 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Other financial assets	629	-	-	629
Total assets	629	-	-	629

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 are assumed to approximate their fair values due to their short-term nature.

27. Parent Information

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

	2020 $000	2019 $000
Statement of financial position		
Current Assets	114,693	74,667
Non-current assets	124,022	88,913
Total assets	238,715	163,580
Current liabilities	1,584	2,154
Non-current liabilities	990	283
Total liabilities	2,574	2,437
Equity		
Issued Capital	245,856	166,080
Accumulated Profits	(9,003)	(4,349)
Reserves	(712)	41
Total equity	236,141	161,772
Statement of comprehensive income		
Total Loss	(3,616)	(6,354)
Total comprehensive Loss	(3,616)	(6,354)

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.

27. Parent Information (continued)

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

	Parent	
	2020 $000	2019 $000
Less than one year	650	793
Between one and five years	500	493
	1,150	1,286

(b) Capital expenditure commitments		
Data licence commitments	580	482

28. Contingent assets and liabilities

The Company had a contingent asset as at 30 June 2019 which relates to the future receipt of the successful insurance claim pertaining to the completion of well control activities for the Phoenix South-2 well in January 2017 due to the well encountering higher than expected pressures. The Phoenix South-3 well was designed as a re-drill with a significant portion of the costs of the Phoenix South-3 well to be reimbursed by the insurance claim.

As at 30 June 2019, the Company had received $2.7m of the refund. The final insurance refund of $1.2m was received in September 2019.

There were no contingent liabilities as at 30 June 2020.

29. Basis of preparation of the financial report

(a) Statement of compliance

The financial report is a general purpose financial report prepared in accordance with Australian Accounting Standards ("AASBs"), including 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, except for the policies stated below.

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

The nature and the effect of the adoption of new Accounting Standards and Interpretations that are most relevant to the Group are described below:

29. Basis of preparation of the financial report (continued)

AASB 16 Leases

In the current year, the Group has applied AASB 16 Leases, which is effective for annual periods that begin on or after 1 January 2019.

The leases recognised by the Group under AASB 16 predominantly relate to the office premise and office car bays.

AASB 16 provides a new lessee accounting model which requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. The depreciation of the lease assets and interest on the lease liabilities are recognised in the consolidated income statement.

Before the adoption of AASB 16, the Group classified each of its leases (as lessee) at inception as either a finance lease or operating lease. For operating leases, the leased item was not capitalised and the lease payments were recognised in the consolidated income statement on a straight-line basis.

Transition to AASB 16:

The Group adopted the new standard using the modified retrospective approach and applied the practical expedient to not reassess whether a contract is, or contains, a lease at 1 July 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying AASB 17 and Interpretation 4 at the date of initial application. The Group also applied the practical expedient to apply a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

Lease liabilities are measured at the present value of future payments on the initial date of application, being 1 July 2019 discounted at the incremental borrowing rate at that date, and right-of-use assets are equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments related to that lease recognised on the consolidated statement of financial position immediately before the date of initial application.

Impact on consolidated statement of financial position:

Impact on consolidated statement of financial position as at 1 July 2019	$000
Right-of-use assets recognised	999
Lease liabilities recognised	(999)
Retained earnings	-

Lease liabilities reconciliation	$000
Operating lease commitments disclosed at 30 June 2019	1,041
Less:	
Present value discounting of lease liabilities [1]	(42)
Lease liabilities recognised on transition as at 1 July 2019	999

[1] Lease liabilities were discounted using an average incremental borrowing rate of 4.35%

29. Basis of preparation of the financial report (continued)

Leases accounting policy (applied from 1 January 2019)

Set out below are the new accounting policies of the Group upon adoption of AASB 16:

When a contract is entered into, the Group assesses whether the contract contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group separates the lease and non-lease components of the contract and accounts for these separately. The Group allocates the consideration in the contract to each component on the basis of their relative stand-alone prices.

Leases as a lessee

Right-of-use assets and lease liabilities are recognised at commencement date of the lease when the asset is available for use. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are depreciated using the straight-line method over the shorter of their useful life and the lease term. Periodic adjustments are made for any re-measurements of the lease liabilities and for impairment losses, assessed in accordance with the Group's impairment policies.

Lease liabilities are initially measured at the present value of future lease payments, discounted using the Group's incremental borrowing rate if the rate implicit in the lease cannot be readily determined After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. Lease payments are fixed payments or index-based variable payments incorporating Group's expectations of extension options and do not include non-lease components of a contract. A portfolio approach was taken when determining the implicit discount rate for the office premise and office car bay lease.

The lease liability is remeasured when there are changes in future lease payments arising from a change in rates, index or lease terms from exercising an extension or termination option. A corresponding adjustment is made to the carrying amount of the right-of-use assets, with any excess recognised in the consolidated income statement.

Short-term leases and lease of low value assets

Short term leases (lease term of 12 month or less) and leases of low value assets are recognised as incurred as an expense in the consolidated income statement.

(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

For the year ended 30 June 2020

29. Basis of preparation of the financial report (continued)

(d) 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.

Key estimate – income and capital gains taxes

Estimates are made in determining any provision for income and capital gains taxes. The Group recognizes liabilities of anticipated tax based on estimates of taxes due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax expenses, assets or provisions in the year in which such determination is made.

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. The determination of reserves and resources is itself an estimation process that requires varying degrees of uncertainty depending on how the resources are classified. These estimates directly impact when the Company defers exploration and evaluation expenditure. The deferral policy 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 judgements – other

Other areas of judgement are in the determination of oil reserves, rehabilitation provisions, and capitalisation of exploration and evaluation costs, determination of areas of interest, and the units of production method of depreciation.

30. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report. The accounting policies have been applied consistently by all entities in the Group. Certain comparative amounts have been reclassified to conform to the current year's presentation.

(a) Basis of consolidation

Controlled entities

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2020. 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.

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 13.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

30. Significant accounting policies (continued)

(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.

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.

30. Significant accounting policies (continued)

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.

30. 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

Intangible assets that have an indefinite useful life are not subject to depreciation and are tested annually for impairment by estimating their recoverable amount.

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

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

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

(f) Provisions

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

30. Significant accounting policies (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. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, 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. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under AASB 15.

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

30. Significant accounting policies (continued)

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.

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.

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).

30. Significant accounting policies (continued)

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

For any debt instruments at fair value through OCI, the Group will apply the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the internal credit rating of the debt instrument. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

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.

(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. The financial information presented in the statement of cash flows is the same basis as that presented to chief operating decision maker.

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.

30. Significant accounting policies (continued)

(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.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less any estimated selling costs.

Cost includes those costs incurred in bringing each component of inventory to its present location and condition.

(l) Employee benefits

Wages and salaries, annual leave

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.

30. Significant accounting policies (continued)

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.

(m) 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.

(n) Cash and cash equivalents

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

(o) Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

30. Significant accounting policies (continued)

(p) 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.

(q) 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.

(r) Royalties

Royalties are treated as taxation arrangements when they have the characteristics of a tax. This is considered to be the case when they are imposed under government authority and the amount payable is calculated by reference to revenue derived (net of any allowable deductions) after adjustment for items comprising temporary differences. For such arrangements, current and deferred tax is provided on the same basis as described above for other forms of taxation.

Obligations arising from royalty arrangements that do not satisfy these criteria are recognised as current provisions and included in expenses.

(s) 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 2020. 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:

30. Significant accounting policies (continued)

Reference	Title	Summary	Impact on the Company	Application date of standard	Application date for Group
Conceptual Framework AASB 2019-1	*Conceptual Framework for Financial Reporting Amendments to Australian Accounting Standards – Reference to the Conceptual Framework*	The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows: • Chapter 1 – The objective of financial reporting • Chapter 2 – Qualitative characteristics of useful financial information • Chapter 3 – Financial statements and the reporting entity • Chapter 4 – The elements of financial statements • Chapter 5 – Recognition and derecognition • Chapter 6 – Measurement • Chapter 7 – Presentation and disclosure • Chapter 8 – Concepts of capital and capital maintenance AASB 2019-1 has also been issued, which sets out the amendments to Australian Accounting Standards, Interpretations and other pronouncements in order to update references to the revised Conceptual Framework. The changes to the Conceptual Framework may affect the application of accounting standards in situations where no standard applies to a particular transaction or event. In addition, relief has been provided in applying AASB 3 and developing accounting policies for regulatory account balances using AASB 108, such that entities must continue to apply the definitions of an asset and a liability (and supporting concepts) in the *Framework for the Preparation and Presentation of Financial Statements* (July 2004), and not the definitions in the revised Conceptual Framework. The Group has yet to fully assess the impact on the Group's financial results when it is first adopted for the year ended 30 June 2021.	There will be no material impact on the Company.	1 January 2020	1 July 2020

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

30. Significant accounting policies (continued)

AASB 2018-7	*Amendments to Australian Accounting Standards – Definition of Material*	This Standard amends AASB 101 *Presentation of Financial Statements and AAS 108 Accounting Policies, Changes in Accounting Estimates and Errors to* align the definition of 'material' across the standards and to clarify certain aspects of the definition. The amendments clarify that materiality will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.	There will be no material impact on the Company.	1 January 2020	1 July 2020
AASB 2019-5	*Amendments to AASs-Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia*	This standard amends AASB 1054 *Australian Additional Disclosures* to require disclosure of the possible impact of initial application of forthcoming IFRS Standards not yet adopted by the AASB. Entities complying with Australian Accounting Standards can assert compliance with IFRS Standards by making this additional disclosure.	There will be no material impact on the Company.	1 January 2020	1 July 2020
AASB 2020-1	*Amendments to AASs-Classification of liabilities as Current or Non-current*	The AASB recently issued amendments to AASB 101 to clarify the requirements for classifying liabilities as current or non-current to: • Clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period • Specify that classification is unaffected by management intention or expectations about whether any entity will exercise its right to defer settlement of a liability • Explain that rights are in existence if covenants are complied with at the end of the reporting period • Introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.	The company is still assessing whether there will be any material impact.	1 January 2022	1 July 2022