NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

The consolidated financial report of Carnarvon Energy Limited ('Company') for the financial year ended 30 June 2023 comprises the Company and its controlled entities (the "Group").

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

The financial report was authorised for issue by the directors on 30 August 2023.

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

2. OTHER INCOME

	Consolidated 2023 $000	Consolidated 2022 $000
Interest revenue[1]	3,390	336
	3,390	336

[1] *Interest revenue is calculated using the effective interest rate method.*

3. OTHER EXPENSES

	Consolidated 2023 $000	Consolidated 2022 $000
The following expenses are included in administrative and employee benefit expenses in the consolidated income statement:		
Depreciation – property, plant and equipment	(53)	(66)
Depreciation – right-of-use assets	(203)	(203)
Defined contribution – superannuation expense	(284)	(311)

NOTES TO THE FINANCIAL STATEMENTS

4. AUDITORS' REMUNERATION

As a result of work in relation to and required for the 30 June 2023 period, the auditor of the Group, Ernst & Young, has charged the following fees:

	2023 $	2022 $
Fees to Ernst & Young Australia:		
Fees for auditing statutory financial report of the parent covering the group and auditing the statutory financial report of any controlled entities	(77,311)	(98,875)

5. (LOSS)/EARNINGS PER SHARE

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

	2023	2022
	Number of shares	
Issued ordinary shares at 1 July	1,800,186,904	1,565,379,917
Shares issued	-	234,806,987
Weighted average number of ordinary shares 30 June (basic)	1,800,186,904	1,623,920,837
Weighted average number of ordinary shares 30 June (diluted)	1,800,186,904	1,623,920,837

	2023 $	2022 $
(Loss)/Earnings used in calculating basic and diluted loss per share	(4,096,000)	(53,753,000)

As the consolidated entity incurred a loss for the year ended 30 June 2023, the effect of 10,735,208 performance rights on issue is considered to be antidilutive and therefore not factored in determining the diluted earnings per share.

As at 30 June 2023, the Group has 40,790,892 reserve shares on issue under the employee share plan (refer Note 16). Based on the weighted average exercise price of these in substance options, they are also considered to be anti-dilutive and therefore have not impacted the calculation of diluted loss per share.

NOTES TO THE FINANCIAL STATEMENTS

6. TAXES

	Consolidated 2023 $000	Consolidated 2022 $000
(a) Income tax expense		
Current Income tax expense		
Current Income tax (benefit) / expense	-	-
Adjustment for prior period	(70)	99
	(70)	99
Deferred tax (income)		
Origination and Reversal of temporary differences – current		
Adjustment for prior period	70	(99)
	70	(99)
Total income tax (benefit) / expense	-	-
Numerical reconciliation between pre-tax profit and income tax expense:		
Profit/(Loss) for the period	(4,096)	(53,753)
Income tax using the statutory rate of 30% (2022: 30%)	(1,229)	(16,126)
Share based payment expense	151	188
Accounting loss on Joint Venture agreement	238	9,190
Revaluation/impairment of financial assets	6	158
Impairment of assets	5	5,567
Other permanent adjustment	4	(26)
Current year tax benefit not brought to account	825	1,049
	-	-
Under(over) provision in prior years	-	-
Income tax (benefit) / expense	-	-

NOTES TO THE FINANCIAL STATEMENTS

6. TAXES (CONTINUED)

(b) Current tax liability

The current tax liability of nil (2022: nil) represents the amount of income tax payable in respect of current and prior financial periods.

Tax Consolidation

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

The impact of consolidating for tax purposes is that Carnarvon's Australian controlled entities are treated as divisions of Carnarvon rather than as separate entities for tax purposes. At the date of this report, the members of the group have not entered into a tax sharing arrangement.

(c) Deferred tax assets and liabilities

	Consolidated	
	2023 $000	2022 $000
Deferred tax liabilities		
Capitalised exploration deducted immediately	47,495	47,179
Unrealised foreign exchange gains	474	1,146
Gross deferred tax liabilities	47,969	48,325

	2023 $000	2022 $000
Deferred tax assets		
Carry forward revenue tax losses	63,881	63,118
Unrealised foreign exchange loss	-	-
Property, plant and equipment	102	89
Share issue costs	609	846
Provisions	243	211
Accruals	21	28
Lease liability and right-of-use-assets	10	15
Gross deferred tax assets	64,866	64,307
Set-off of deferred tax liabilities pursuant to set-off provisions	(47,969)	(48,325)
Unrecognised deferred tax asset	(16,897)	(15,982)
Net deferred tax assets	-	-

NOTES TO THE FINANCIAL STATEMENTS

6. TAXES (CONTINUED)

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

	2023 $000	2022 $000
Total Australian tax losses	212,938	210,394
Unaugmented PRRT losses	205,670	194,020

7. OTHER RECEIVABLES

	Consolidated	
	2023 $000	2022 $000
Current		
Other receivables	852	456
Cash held as security	218	218
	1,070	674

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

8. FINANCIAL ASSETS

	2023 $000	2022 $000
Financial assets at FVTPL	667	557

Reconciliation

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

	2023 $000	2022 $000
Beginning balance	491	1,339
Gain/(loss) on remeasurement of fair value assets	32	(525)
Disposal of financial assets	(22)	(323)
Closing balance	501	491
Other financial assets	166	66
Carrying value at the end of period	667	557

NOTES TO THE FINANCIAL STATEMENTS

8. FINANCIAL ASSETS (CONTINUED)

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.

During the reporting period, Carnarvon disposed of 10,083,700 shares at average of S$0.002/share.

The shares in CWX held by Carnarvon at 30 June 2023 has been accounted for as a fair value through profit or loss financial asset under Australian Accounting Standards and classified as a "level 1" financial asset under the fair value hierarchy using the share price of CWX as at 30 June 2023.

Other financial assets:

On 4 March 2022, Carnarvon entered into a 12-month call option (Call Option) to purchase a 65Ha site in the Shire of Narrogin, approximately 200kms southeast of Perth, Western Australia, for its proposed biorefinery project. The option fee payable under the Call Option was $70,000. On 28 February 2023, the parties agreed to extend the Call Option by 6 months to 4 September 2023, with an additional option fee payable of $80,000. On 25 July 2023, the parties agreed to further extend the Call Option by 9 months to 4 June 2024, with an additional option fee payable of $45,000. The total of the option fee(s) under the Call Option, as extended, will be credited against the price of the land if the Company exercises the option.

9. PROPERTY, PLANT AND EQUIPMENT

	Consolidated	
	2023 $000	2022 $000
Fixtures and fittings		
Gross carrying amount at cost:		
Balance at beginning of financial year	747	729
Additions	10	18
Balance at end of financial year	757	747
Depreciation and impairment losses:		
Balance at beginning of financial year	667	601
Depreciation charge for year	53	66
Balance at end of financial year	720	667
Carrying amount opening	80	128
Carrying amount closing	37	80

NOTES TO THE FINANCIAL STATEMENTS

10. OTHER ASSETS

	Consolidated	
	2023 $000	2022 $000
Current		
Prepayments	642	184

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	
	2023 $000	2022 $000
Balance at beginning of financial year	389	592
Additions	-	-
Depreciation expense	(203)	(203)
Balance at end of financial year	186	389

Lease liabilities	Consolidated	
	2023 $000	2022 $000
Balance at beginning of financial year	441	644
Additions	-	-
Interest expense	14	23
Lease payments	(235)	(226)
Balance at end of financial year	220	441
Current lease	220	221
Non-current lease	-	220
Balance at end of financial year	220	441

The following are the amounts recognised in profit or loss:	Consolidated	
	2023 $000	2022 $000
Depreciation – right-of-use assets	(203)	(203)
Interest expense – lease liabilities	(14)	(23)

NOTES TO THE FINANCIAL STATEMENTS

12. EXPLORATION AND EVALUATION EXPENDITURE

	Consolidated	
	2023 $000	2022 $000
Cost:		
Balance at beginning of financial year	157,263	129,500
Additions	12,119	38,487
Exploration expenditure written off	-	(10,724)
Balance at end of financial year	169,382	157,263

Recoverability

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

The Company performed an assessment on whether the carry value of the exploration and evaluation expenditure is recoverable at 30 June 2023, and have formed the view that the caplitalised expenditure is fully recoverable.

Divestment

On 22 February 2023, the Company entered into a binding agreement to divest a 10% interest in its Bedout assets to OPIC Australia Pty Limited, a wholly owned subsidiary of CPC Corporation, Taiwan (CPC), Taiwan's national oil and gas company.

Under the agreement, the Company is set to receive total cash consideration of approximately US$148,000,000 from the divestment. This comprises an upfront payment of US$56,000,000 on completion of the transaction, and a further carry of US$90,000,000 of forward expenditure in the Bedout permits once a Final Investment Decision (FID) is taken on the Dorado development.

The divestment was completed subsequent to year end upon all conditions associated with the transaction, including approval by the Foreign Investment Review Board (FIRB), being satisfied (refer to note 24).

13. JOINT OPERATIONS

The Group has the following interests in joint operations:

Joint operation	Principal activities	Ownership interest %	
Western Australia		**2023**	**2022**
WA-435-P, WA-437-P, Roebuck Basin	Exploration for hydrocarbons	20%	20%
WA-436-P, WA-438-P, Roebuck Basin	Exploration for hydrocarbons	30%	30%
WA-64-L, Roebuck Basin	Exploration for hydrocarbons	20%	20%

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

14. INVESTMENT IN JOINT VENTURE – FUTUREENERGY

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

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

Reconciliation of interest in FEA:

	30 June 2023 $000	30 June 2022 $000
Investment in joint venture beginning balance	2,079	2,592
Share of loss for the period (50%)	(792)	(513)
Investment in joint venture closing balance	1,287	2,079

Summarised financial information of FEA:

Summarised statement of financial position of FEA at 30 June 2023:

	30 June 2023 $000	30 June 2022 $000
Current assets		
Cash and cash equivalents	34	1,629
Non-current assets	2,592	2,592
Current liabilities		
Trade and other payables	52	63
Equity	2,574	4,158
Group's share in equity (50%)	1,287	2,079
Group's carrying amount of the investment	1,287	2,079

Summarised statement of profit or loss of FEA for the year ending to 30 June 2023:

	30 June 2023 $000	30 June 2022 $000
Other Income	409	-
Administrative expenses	(1,576)	(539)
Employee benefits	(417)	(486)
Loss for the period	(1,584)	(1,025)
Group's share of loss for the period (50%)	(792)	(513)

NOTES TO THE FINANCIAL STATEMENTS

15. TRADE AND OTHER PAYABLES

	Consolidated 2023 $000	Consolidated 2022 $000
Current		
Trade payables	1,045	2,234
Director fees payable	74	90
Non-trade payables and accrued expenses	68	207
	1,187	2,531

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

16. CAPITAL AND RESERVES

	Consolidated 2023 Number of shares	Consolidated 2022 Number of shares
Contributed equity		
Balance at beginning of financial year	1,800,186,904	1,565,379,917
Issued for cash	-	234,806,987
Balance at end of financial year	1,800,186,904	1,800,186,904

	2023 $000	2022 $000
Issued capital		
Balance at beginning of financial year	314,096	246,268
Exercise of employee shares	80	634
Proceeds from capital raise	-	67,194
Balance at end of financial year	314,176	314,096

NOTES TO THE FINANCIAL STATEMENTS

16. CAPITAL AND RESERVES (CONTINUED)

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.

	2023	2022
	Number of shares	
Reserve shares (plan shares)		
Balance at beginning of financial year	42,062,668	52,497,274
Employee Share Plan issued	-	-
Employee Share Plan repaid	(1,271,776)	(10,434,606)
Balance at end of financial year	40,790,892	42,062,668

	2023 $000	2022 $000
Reserve shares (plan shares)		
Balance at beginning of financial year	(6,875)	(7,638)
Repayment of Employee Share Plan Loans	97	763
Balance at end of financial year	(6,778)	(6,875)

Translation reserve

Movements in the translation reserve are set out in the Statement of Changes in Equity on page 50.

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

NOTES TO THE FINANCIAL STATEMENTS

17. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Consolidated 2023 $000	Consolidated 2022 $000
(a) Cash flows from operating activities		
(Loss)/profit for the year	(4,096)	(53,753)
Adjustments for:		
Depreciation on property, plant and equipment	53	67
Depreciation on right-of-use assets	203	203
Share based payment	503	627
Fair value movement of financial asset	(32)	525
Foreign exchange movement	(1,521)	(4,027)
Exploration expenditure write-off	-	10,724
Interest accrued	(461)	-
Employee benefit accrual adjustments	352	-
Share of loss on Joint Venture	792	30,633
Impairment of Investment in joint ventures	-	7,833
Operating loss before changes in working capital and provisions:	(4,207)	(7,168)
Changes in assets and liabilities:		
(Increase) in other receivables	(422)	(322)
Decrease in other assets	14	544
Increase in trade and other payables	403	1,221
Increase/(Decrease) in provisions and employee benefits	(243)	105
(Decrease) in ESP reserve	(185)	-
Net cash flows used in operating activities	(4,640)	(5,620)
(b) Reconciliation of cash and cash equivalents		
Cash at bank and at call	8,308	16,124
Cash on deposit	86,993	96,300
	95,301	112,424

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

Restricted cash of $218,000 relating to security deposits for corporate credit cards and rental of the Company's head office is included under other receivables (2022: $218,000 consolidated), see Note 7.

NOTES TO THE FINANCIAL STATEMENTS

18. CAPITAL AND OTHER COMMITMENTS

(a) Exploration expenditure commitments

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

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

	Consolidated	
	2023 $000	2022 $000
Less than one year	250	348
Between one and five years	-	-
	250	348

(b) Capital expenditure commitments

Data licence commitments	104	584

(c) Leases

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

19. CONTINGENCIES

In accordance with normal petroleum industry practice, the Group has entered into joint operations and farm-in agreements with other parties for the purpose of exploring and developing its petroleum permit interests. If a party to a joint operation defaults and does not contribute its share of joint operation obligations, then the other joint operators are liable to meet those obligations. In this event, the interest in the permit held by the defaulting party may be redistributed to the remaining joint operators. As at 30 June 2023, there are no liabilities owing by the Group as a result of a joint operating party defaulting on their contributions to the joint operation.

NOTES TO THE FINANCIAL STATEMENTS

20. EMPLOYEE BENEFITS

	Consolidated 2023 $000	Consolidated 2022 $000
(a) Employee benefits charged to P&L		
Salary and wages (including super)	4,176	4,569
Staff costs allocated to projects	(1,323)	(2,697)
Short term cash bonus	-	99
Share based payment expense	503	626
Total Employee benefits	3,356	2,597

	Consolidated 2023 $000	Consolidated 2022 $000
(b) Employee benefits liabilities		
Current:		
Liability for annual leave and long service leave	663	569
Non-Current:		
Provision for long service leave	147	132
Total Employee benefits	810	701

Employee Share Plan

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

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

NOTES TO THE FINANCIAL STATEMENTS

20. EMPLOYEE BENEFITS (CONTINUED)

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

	Number 2023	WAEP 2023	Number 2022	WAEP 2022
Outstanding at beginning of year	42,062,668	0.30	52,497,274	0.27
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	1,271,776	0.14	10,434,606	0.13
Expired during the year	-	-	-	-
Outstanding at end of year	40,790,892	0.31	42,062,668	0.30
Exercisable at end of year	40,790,892	0.31	42,062,668	0.30

Shares previously granted under the ESP are accounted for as "in-substance" options due to the limited recourse nature of the loan between the employees and Carnarvon to finance the purchase of ordinary shares. There were no ESP shares issued during the period.

Employee share Incentive plan

The following table illustrates the balance and valuation of performance rights using Monte Carlo Simulation model as at 30 June 2023:

Instrument	Held at 1 July 2022	Share price at grant date	Date Granted	Vesting period (years)	Exercise price	Share price volatility	Risk free rate	Dividend yield	Rights Granted	Rights Forfeited	Rights Vested	Fair value at grant date	Held at 30 June 2023 (unvested)
PR-LTIP	2,716,560	0.26	01/07/2021	3	-	50%	0.1%	-	-	585,468	-	0.19	2,131,092
PR-STIP	403,110	0.26	01/07/2021	1	-	50%	0.1%	-	-	-	403,110	0.26	-
PR-LTIP	2,179,724	0.33	12/11/2021	3	-	50%	0.1%	-	-	-	-	0.24	2,179,724
PR-STIP	544,931	0.33	12/11/2021	1	-	50%	0.1%	-	-	-	544,931	0.33	-
PR-LTIP	-	0.19	01/07/2022	3	-	64%	0.9%	-	4,475,676	997,482	-	0.12	3,478,194
PR-LTIP	-	0.16	05/10/2022	3	-	64%	2.6%	-	53,106	-	-	0.10	53,106
PR-LTIP	-	0.15	18/11/2022	3	-	64%	2.9%	-	2,893,092	-	-	0.10	2,893,092
Total	5,844,325								7,421,874	1,582,950	948,041		10,735,208

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

Performance rights awarded under the STIP are granted for a 12-month period. The vesting condition requires the employee to remain employed by the Company over the vesting period and as at the vesting date.

Performance rights awarded under the LTIP are granted for a 3-year period. The vesting conditions are based on Carnarvon's Total Shareholder Return (TSR) (1) in absolute terms and (2) relative to the returns of a group of companies considered alternative investments to Carnarvon.

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

NOTES TO THE FINANCIAL STATEMENTS

The vesting schedule of 50% of the LTIP performance rights will be subject to relative TSR testing is as follows:

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

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

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

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

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

21. RELATED PARTY DISCLOSURES

Ultimate parent

Carnarvon Energy Limited is the ultimate parent company.

During the reporting period, 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 Carnarvon Petroleum Timor Unipessoal LDA (CPT) was $4,604,962 as at 30 June 2023 (2022: $3,099,000). This amount is unsecured, interest-free and is only repayable out of the after-tax profits and has been recorded at a fair value of nil in the Group's statement of financial position as it is only repayable out of after-tax profits of CPT noting that the entity is in the process of being wound-up.

Other related party balances and transactions

At 30 June 2023, an amount of $ 74,000 (2022: $90,000) is included in the Group's trade and other payables balance for outstanding director fees and expenses.

NOTES TO THE FINANCIAL STATEMENTS

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	
	2023 $000	2022 $000
Short term benefits	2,013	1,924
Post employment benefits	124	66
Share based payments	345	825
Long term benefits	214	101
	2,696	2,916

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 30 to 42.

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	
	2023 $000	2022 $000
Current		
Director's fee payable	74	90

NOTES TO THE FINANCIAL STATEMENTS

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 Energy Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

2023	Held at 1 July 2022	Net acquired/ (sold)	Award under Employee Share Plan	Received on exercise of options	Held at 30 June 2023
Directors					
WA Foster	1,425,938	-	-	-	1,425,938
AC Cook	15,938,797	-	-	-	15,938,797
P Moore	964,232	-	-	-	964,232
SG Ryan	305,221	-	-	-	305,221
D Bakker	574,774	-	-	-	574,774
Executives					
PP Huizenga	12,076,196	250,000	-	-	12,326,196
TO Naude	4,019,357	-	-	-	4,019,357[1]
A Doering[2]	1,237,001				1,237,001

[1] *This balance reflects the shares held by Mr TO Naude on the date that he resigned as Chief Financial Officer on 31 May 2023.*

[2] *Mr A Doering was appointed as Chief Financial Officer on 1 June 2023. His balance at 1 July 2022 is representative of the number shares he held as an employee (before becoming a KMP).*

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

NOTES TO THE FINANCIAL STATEMENTS

22. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(d) Plan shares held by key management personnel

Included in the above table are plan shares held by key management personnel held under the previous ESP loan scheme which are accounted for as in substance options (refer to page 65 for further terms). 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:

2023	Held at 1 July 2022	Granted as compensation	Employee Share Plan cancellations	Exercised	Held at 30 June 2023
Directors					
WA Foster	-	-	-	-	-
AC Cook	12,945,592	-	-	-	12,945,592
P Moore	-	-	-	-	-
SG Ryan	-	-	-	-	-
D Bakker	-	-	-	-	-
Executives					
PP Huizenga	11,976,196	-	-	-	11,976,196
TO Naude	3,992,512	-	-	-	3,992,512[1]
A Doering[2]	1,237,001	-	-	-	1,237,001

[1] *This balance reflects the shares held by Mr TO Naude on the date that he resigned as Chief Financial Officer on 31 May 2023.*

[2] *Mr A Doering was appointed as Chief Financial Officer on 1 June 2023. His balance at 1 July 2022 is representative of the number shares he held as an employee (before becoming a KMP).*

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

22. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

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

2023	Held at 1 July 2022	Granted	Exercised	Lapsed	Held at 30 June 2023	Vested and exercisable at 30 June 2023	Vested and unexercisable at 30 June 2023
Directors							
WA Foster	-	-	-	-	-	-	-
AC Cook	2,179,724	2,893,092	-	-	5,072,816	-	-
P Moore	-	-	-	-	-	-	-
SG Ryan	-	-	-	-	-	-	-
D Bakker	-	-	-	-	-	-	-
Other Executives							
PP Huizenga	1,001,092	1,328,724	-	-	2,329,816	-	-
TO Naude[1]	585,468	933,986	-	1,519,454	-	-	-
A Doering[2]	180,000	246,924	-	-	426,924		
Total	3,946,284	5,402,726	-	1,519,454	7,829,556	-	-

[1] *Mr TO Naude's performance rights lapsed in June 2023 after his resignation as Chief Financial Officer on 31 May 2023.*

[2] *Mr A Doering's performance rights held as at 30 June 2023 include rights issued to him as part of the company's Employee Share Incentive Plan prior to commenting as Chief Financial Officer on 1 June 2023.*

Performance rights- STIP held by key management personnel

2023	Held at 1 July 2022	Granted	Exercised[1]	Held at 30 June 2023	Vested and exercisable at 30 June 2023	Vested and unexercisable at 30 June 2023
Directors						
WA Foster	-	-	-	-	-	-
AC Cook	544,931	-	544,931	-	-	-
P Moore	-	-	-	-	-	-
SG Ryan	-	-	-	-	-	-
D Bakker	-	-	-	-	-	-
Executives						
PP Huizenga	255,279	-	255,279	-	-	-
TO Naude	147,831	-	147,831	-	-	-
A Doering	-	-	-	-	-	-
Total	948,041	-	948,041	-	-	-

[1] *The performance rights were exercised and settled in cash in the amount of $184,868 on 18 July 2022 at the Board's discretion.*

NOTES TO THE FINANCIAL STATEMENTS

23. CONSOLIDATED ENTITIES AND JOINT VENTURE

Name	Country of Incorporation	Ownership interest 2023	Ownership interest 2022
Company			
Carnarvon Energy Ltd	Australia		
Controlled entities			
Carnarvon Thailand Ltd	British Virgin Islands	100%	100%
Timor-Leste Petroleum Pty Ltd	Australia	100%	100%
Dorado Petroleum Pty Ltd	Australia	100%	100%
Carnarvon Bedout 1 Pty Ltd	Australia	100%	100%
Carnarvon Petroleum Timor Unip LDA	Timor-Leste	100%	100%
Carnarvon Future Energy Pty Ltd	Australia	100%	100%
FutureEnergy Australia Pty Ltd	Australia	50%	50%

24. SUBSEQUENT EVENTS

On 14 July 2023, the Company issued 6,868,468 performance rights to KMP (other than the CEO) and other employees under the company's performance rights plan.

On 14 July 2023, the Company cancelled 63,496 unvested performance rights following the resignation of a non-KMP in accordance with the terms of the Company's Performance Rights Plan.

On 31 July 2023, the Company surrendered the AC/P63 exploration permit.

On 16 August 2023, the Company surrendered the AC/P62 exploration permit.

On 16 August 2023, the Company announced completion of the partial divestment of its Bedout Sub-basin interest to OPIC Australia Pty Limited, a subsidiary of CPC Corporate, Taiwan. The company received US$58 million upfront on completion date and will receive a further US$90 million carry on the Company's forward exploration expenditure once Final Investment Decision is made on the Dorado Development.

Other than above, there is no other matters or circumstance which have arisen since 30 June 2023 that in the opinion of the directors has significantly affected, or may significantly affect in future financial years:

(i) The Group's operations; or

(ii) The results of those operations; or

(iii) The Group's state of affairs

NOTES TO THE FINANCIAL STATEMENTS

25. FINANCIAL RISK MANAGEMENT

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

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

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

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

(a) Interest rate risk

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

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

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

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

	Consolidated	
	2023	2022
Carrying amount (A$000)		
Financial assets – cash and cash equivalents	95,301	112,424
Weighted average interest rate (%)		
Financial assets – cash and cash equivalents	4.42%	0.95%

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

NOTES TO THE FINANCIAL STATEMENTS

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

Sensitivity analysis

An increase in 100 basis points from the weighted average year-end interest rates at 30 June 2023 would have increased equity and profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis was performed on 100 basis points for 2022:

	Consolidated	
	Equity $000	Profit and loss $000
30 June 2023	955	955
30 June 2022	1,126	1,126

A decrease in 100 basis points from the weighted average year-end interest rates at 30 June 2023 would have decreased equity and profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis was performed on 100 basis points for 2022:

	Consolidated	
	Equity $000	Profit and loss $000
30 June 2023	(955)	(955)
30 June 2022	(1,126)	(1,126)

(b) Credit risk

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

The Group's receivables are deposits. There were no receivables at 30 June 2023 or 30 June 2022 that were past due.

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

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

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

	Consolidated	
	2023 $000	2022 $000
Carrying amount:		
Cash and cash equivalents	95,301	112,424
Other receivables	1,070	674
	96,371	113,098

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

NOTES TO THE FINANCIAL STATEMENTS

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	Gross 2023 $000	Impairment 2023 $000	Gross 2022 $000	Impairment 2022 $000
Not past due	1,070	-	674	-
	1,070	-	674	-

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

(c) Currency risk

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

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

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

	USD A$000
30 June 2023	
Cash and cash equivalents	25,739
Trade payables and accruals	198
Gross balance sheet exposure	25,937
30 June 2022	
Cash and cash equivalents	29,449
Trade payables and accruals	198
Gross balance sheet exposure	29,647

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
AUD to:	2023	2022	2023	2022
1 USD	1.485	1.384	1.506	1.452

NOTES TO THE FINANCIAL STATEMENTS

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

Sensitivity analysis

A 5% strengthening of the AUD against the USD for the 12 months to 30 June 2023 and 30 June 2022 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 2023		
USD	(1,846)	(1,846)
30 June 2022		
USD	(2,036)	(2,036)

A 5% weakening of the AUD against the USD for the 12 months to 30 June 2023 and 30 June 2022 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 2023		
USD	2,041	2,041
30 June 2022		
USD	2,250	2,250

(e) Liquidity risk

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

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

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

	Carrying amount $000	Contractual cash flows $000	6 months or less $000	6 to 12 months $000
30 June 2023				
Non-derivative financial liabilities				
Trade and other payables	1,045	1,045	1,045	-
30 June 2022				
Non-derivative financial liabilities				
Trade and other payables	2,234	2,234	2,234	-

NOTES TO THE FINANCIAL STATEMENTS

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 2023	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Other financial assets	501	-	-	501
Total assets	501	-	-	501

30 June 2022	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Other financial assets	557	-	-	557
Total assets	557	-	-	557

There were no transfers between levels during the financial year.

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

NOTES TO THE FINANCIAL STATEMENTS

27. PARENT INFORMATION

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

	2023 $000	2022 $000
Statement of financial position		
Current Assets	97,013	113,139
Non-current assets	171,058	159,878
Total assets	268,071	273,017
Current liabilities	2,070	1,457
Non-current liabilities	147	573
Total liabilities	2,217	2,030
Equity		
Issued Capital	314,176	314,096
(Accumulated loss) /gain	(49,596)	(43,968)
Reserves	1,273	859
Total equity	265,853	270,987
Statement of comprehensive income		
Total (loss)/ gain	(5,618)	(52,089)
Total comprehensive (loss)/gain	(5,618)	(52,089)

Parent Contingencies

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

(a) Exploration expenditure commitments

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

NOTES TO THE FINANCIAL STATEMENTS

27. PARENT INFORMATION (CONTINUED)

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

	2023 $000	2022 $000
Less than one year	250	348
Between one and five years	-	-
	250	348

(b) Capital expenditure commitments

Data licence commitments	104	584

28. CONTINGENT ASSETS AND LIABILITIES

There were no contingent assets and liabilities as at 30 June 2023 (2022: $0).

29. BASIS OF PREPARATION OF THE FINANCIAL REPORT

(a) Statement of compliance

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

Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards ("IFRSs"). Material accounting policies adopted in the preparation of this financial report are presented below.

(b) Adoption of new and amended Accounting Standards

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

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

(c) Basis of measurement

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

NOTES TO THE FINANCIAL STATEMENTS

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

(d) Functional currency

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

(e) Use of estimates and judgements

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

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

Exploration and evaluation expenditures

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

If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in profit or loss in the period when the new information becomes available.

Key judgement – functional currency

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

Key judgement – joint control

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

(f) Rounding Off

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

NOTES TO THE FINANCIAL STATEMENTS

30. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

Controlled entities

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2023. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

30. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

Joint Operations

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

Joint Ventures

The Group's investments in joint ventures are accounted for using the equity method. Details of the Group's interests in joint ventures are provided in Note 14.

(b) Income tax

Current income tax

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

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

Deferred tax

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

30. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Income tax (continued)

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

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

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

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

Tax consolidation

Carnarvon Energy Limited and its wholly-owned Australian-resident controlled entities formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. Carnarvon Energy Limited is the head entity of the tax-consolidated group.

(c) Property, plant and equipment

Recognition and measurement

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

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

Impairment

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

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

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

Depreciation

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

Property, plant and equipment: 10% to 33%

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

30. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Exploration and evaluation

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

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

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

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

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

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

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

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

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

(f) Provisions

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

NOTES TO THE FINANCIAL STATEMENTS

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. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

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

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

Subsequent measurement

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

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

Financial assets at amortised cost (debt instruments)

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

30. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial instruments (continued)

Financial assets at fair value through profit or loss

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

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

Derecognition

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

30. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial instruments (continued)

Impairment of financial assets

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

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

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

ii) Financial liabilities

Initial recognition and measurement

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

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

Derecognition

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

iii) Offsetting of financial instruments

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

NOTES TO THE FINANCIAL STATEMENTS

30. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Segment reporting

The Group reports one segment, oil and gas exploration, development and production, to the chief operating decision maker, being the Board of Carnarvon Energy Limited, in assessing performance and determining the allocation of resources. The segment operations and results are the same as those reported in the Group financial statements.

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

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

(i) Foreign currency

Functional and presentation currency

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

Transactions and balances

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

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

Foreign operations

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

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

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

(j) Share capital

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

NOTES TO THE FINANCIAL STATEMENTS

30. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Employee benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year are determined using the projected unit credit method.

Share based payments

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

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

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

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

(l) Earnings per share

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

30. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Cash and cash equivalents

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

(n) Goods and services tax

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

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

(o) Finance income and expenses

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

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

(p) Investment in joint ventures

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

30. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) New Accounting Standards for Application in Future Periods

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2023. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below:

Reference	Title	Summary	Impact on the Company	Application date of standard	Application date for Group
AASB 112 *Amendments to Australian Accounting Standards*	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.	The Company is still assessing the impact.	1 January 2023	1 July 2023
AASB 101 Amendments to Australian Accounting Standards	*Classification of Liabilities as Current or Non-current*	The amendments clarify that liabilities are classified as either current or non-current depending on the rights that exist at the end of the reporting period. The amendments also clarify what it means when it refers to the 'settlement' of a liability.	The Company is still assessing the impact.	1 July 2024	1 July 2024