



CARNARVON
PETROLEUM
LIMITED
ABN 60 002 688 851

2 August 2006

Company Announcements Office
Australian Stock Exchange Limited
Exchange Centre
20 Bond Street
SYDNEY NSW 2000

Via ASX Online

Dear Sir

PLACEMENT, SHARE PURCHASE PLAN, AND SALE OF UNMARKETABLE PARCELS

Carnarvon Petroleum Limited ("**Carnarvon**") is pleased to announce it has reached an in-principle agreement with Hartleys Limited to place up to 50 million ordinary shares in Carnarvon at an issue price of \$0.05 per share, to raise up to \$2.5 million ("**the Placement**"), principally to retail and institutional clients of Hartleys Limited.

The Placement is being made pursuant to Carnarvon's 15% capacity under ASX Listing Rule 7.1.

In addition, Carnarvon is pleased to announce that in conjunction with the Placement, Carnarvon is undertaking a Share Purchase Plan ("**SPP**") for all eligible existing shareholders registered on 31 July 2006 to subscribe for a further 20 million ordinary shares at an issue price of \$0.05 per share to raise up to a further \$1 million. Shares offered pursuant to the SPP are being offered at the same price as shares offered under the Placement.

Funds raised by Carnarvon in respect of the Placement and SPP will be applied towards Carnarvon's current Phase 1 drilling campaign, evaluation and assessment of new opportunities, working capital, and costs of the issue.

The following is being dispatched to Shareholders under the SPP:

1. Letter to shareholders containing the offer of Carnarvon Shares under the SPP; and
2. SPP Application Form (not attached)

Suite 3
Ground Floor
16 Ord Street
West Perth WA 6005
Australia

Telephone +61 8 9321 2665
Facsimile +61 8 9321 8867
e-mail: admin@carnarvonpetroleum.com

The key dates are as follows:

Record Date: 31 July 2006
Offer Closing Date: 30 August 2006

Following completion of the Placement and the SPP, Carnarvon intends to offer for sale on the ASX shares of unmarketable parcels held by Shareholders who have not given notice that they wish to retain their shareholding.

The following is being dispatched to the holders of unmarketable parcels:

1. Sale of unmarketable parcels letter; and
2. Small Holding Sale Facility Form (not attached).

Yours faithfully

A handwritten signature in black ink, appearing to read 'Peter Leonhardt', with a large, sweeping flourish at the end.

Peter Leonhardt
Chairman



CARNARVON
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2 August 2006

Dear Shareholder

OFFER OF CARNARVON PETROLEUM LIMITED SHARES UNDER A SHARE PURCHASE PLAN

Carnarvon Petroleum Limited ("**Carnarvon**") has announced it has reached an in-principle agreement with Hartleys Limited for the placement of up to 50 million ordinary shares at an issue price of \$0.05 per share to raise up to \$2.5 million ("**the Placement**"), principally to retail and institutional clients of Hartleys Limited.

Carnarvon has also announced that it is undertaking a Share Purchase Plan for all eligible existing shareholders to raise up to a further \$1 million ("**the SPP**").

Funds raised by Carnarvon in respect of the Placement and SPP will be applied towards Carnarvon's current Phase 1 drilling campaign, evaluation and assessment of new opportunities, working capital, and costs of the issue.

Under the SPP, each eligible shareholder may subscribe for additional fully paid ordinary shares in Carnarvon ("**New Carnarvon Shares**") under the terms and the conditions of Carnarvon's SPP (a copy of which is attached to this letter as Annexure "A").

The SPP has been designed to allow eligible shareholders to subscribe for New Carnarvon Shares at \$0.05 per share, being the same price as offered to parties introduced by Hartleys under the Placement. The subscription price of \$0.05 per share represents a discount of 11.2% to the volume weighted average price of Carnarvon shares for the period of 5 days on which sales were recorded prior to the date of this offer.

The SPP also allows eligible shareholders to acquire the New Carnarvon Shares without brokerage or other costs that would apply to an on-market purchase of shares.

If you currently hold an unmarketable parcel of shares (being less than \$500 worth of shares) this is a good means by which you can top up your shareholding and accordingly trade your shares on the ASX.

Participation in the SPP is optional.

The offer under the SPP is non-renounceable. This means that you cannot transfer your right to subscribe for New Carnarvon Shares under the offer to anyone else.

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You are eligible to participate in the SPP as you were a registered holder of ordinary shares in Carnarvon at 5pm on 31 July 2006 (“**Record Date**”) with a registered address in either Australia or New Zealand.

How Much Can You Invest?

As an eligible shareholder, you are entitled to subscribe for New Carnarvon Shares up to a maximum value of \$5,000. You may select only 1 of the following alternatives to subscribe for New Carnarvon Shares under the SPP:

Offer A	\$5,000
Offer B	\$2,500

The Directors of Carnarvon have decided to limit the number of New Carnarvon Shares to be issued under the SPP to no more than 20 million. If Carnarvon receives acceptances under the SPP for more than 20 million New Carnarvon Shares, Carnarvon will scale back the number of New Carnarvon Shares to be issued to eligible shareholders by the same proportion.

Offer Price and Closing Date

The Offer Price is \$0.05 per New Carnarvon Share, representing a discount of 11.2% to the volume weighted average price of Carnarvon shares for the period of 5 days on which sales were recorded prior to the date of this offer.

The closing date for the offer is 30 August 2006.

How Many New Carnarvon Shares Will You Receive?

Subject to any proportionate scaling back, the number of New Carnarvon Shares that will be issued to you will be as follows:

Total Subscription Amount	Subscription Price per share	Number of New Carnarvon Shares to be issued
\$5,000 (Offer A)	5 cents	100,000
\$2,500 (Offer B)	5 cents	50,000

The market price of Carnarvon Shares may rise or fall between now and the date when the New Carnarvon Shares are issued in accordance with the SPP. This means the price you pay for the New Carnarvon Shares under the SPP may exceed, or be less than, the market price of Carnarvon’s shares at the time of issue.

How Do You Apply For New Carnarvon Shares Under This Offer?

To subscribe for New Carnarvon Shares under this offer, you must:

- Carefully read the terms and conditions of the SPP (refer Annexure "A").
- Complete the Attached Share Purchase Plan Acceptance Form specifying the dollar value of New Carnarvon Shares you wish to apply for (being one of \$5,000 or \$2,500).
- Enclose a cheque made payable in Australian dollars to **Carnarvon Petroleum Limited** and crossed **Not Negotiable** for the total subscription price for the New Carnarvon Shares specified in the Share Purchase Plan Acceptance form (\$5,000 or \$2,500).
- Return the Share Purchase Plan Acceptance Form together with payment to :

In Person:
Computershare Investor Services Pty Limited
Level 2
45 St Georges Terrace
Perth WA 6000

By Post:
Computershare Investor Services Pty Limited
GPO Box D182
Perth WA 6840

By 5.00pm on 30 August 2006

Placement of Shortfall

Hartleys Limited has agreed to place any shortfall under the SPP on a best efforts basis.

The Directors recommend the SPP to you, and welcome your ongoing support.

If you are unsure about any aspect of this offer, Carnarvon recommends you seek professional advice.

If you have any queries in relation to this offer or how to accept it please contact:

Mr Bob Anderson
Company Secretary
Carnarvon Petroleum Limited
Tel: 9321 2665
Fax: 9321 8867

Yours faithfully



Peter Leonhardt
Chairman

Annexure “A”

Terms and Conditions of the Share Purchase Plan of Carnarvon Petroleum Limited

On 31 July 2006 Carnarvon Petroleum Limited (“**Carnarvon**”) approved and adopted this Share Purchase Plan.

1. Share Purchase Plan

This Share Purchase Plan allows Carnarvon to offer shares to its shareholders without having to prepare and issue a prospectus or other disclosure document. Offers must be made in accordance with the terms of this plan and acceptances are entirely optional.

2. Eligible shareholders

The eligible shareholders who are entitled to receive offers for shares under this Share Purchase Plan are all persons:

- (a) who are registered as holders of shares in the same class as the offered shares at the Record Date for the offer as determined by the Board of Directors of Carnarvon; and
- (b) whose address (as record in Carnarvon’s register of members) is in a jurisdiction where, in the reasonable opinion of the board, it is lawful and practical for Carnarvon to offer and issue shares under the Share Purchase Plan.

3. Offers

Under this Share Purchase Plan, Carnarvon may, from time to time, offer for subscription, shares in Carnarvon as follows

- (a) The offers must be in writing;
- (b) The offered shares must be in a class of shares which are quoted on the financial market operated by Australian Stock Exchange Limited (“**ASX**”) and trading in the class must not be suspended at the time the offered is made. At the date of adoption of the Share Purchase Plan the only class of quoted shares in Carnarvon are ordinary shares;
- (c) An offer must be made to each eligible shareholder of Carnarvon;
- (d) The Offers must be made on the same terms irrespective of the number of shares held by the eligible shareholders;
- (e) The offers must be made on a non-renounceable basis.

- (f) The issue price of each share offered for subscription shall be determined by the Board of Directors of Carnarvon, but must at least 80% of the average market price of shares in the same class calculated over the last 5 days on which sales in the shares were recorded prior to either the date on which the issue was announced or before the day on which the issue was made.
- (g) The maximum amount that an eligible shareholder may subscribe for shares offered under the Share Purchase Plan in any consecutive 12 month period must not exceed \$5,000.
- (h) The number of shares to be issued must not be greater than 30% of the number of fully paid ordinary shares already on issue.

4. Other terms

Offers may be made on any other terms determined by Carnarvon which are consistent with this Share Purchase Plan.

5. Acceptance

An offer made to an eligible shareholder under the Share Purchase Plan may only be accepted by the eligible shareholder completing and returning the application form provided by Carnarvon, together with payment of the subscription amount, by no later than the closing date for the offer specified in the application and otherwise in accordance with the instructions on the application form.

By returning the application form the eligible shareholder certifies that the aggregate subscription amount for:

- (a) the shares the subject of the application; and
- (b) any other shares in the class applied for by the eligible shareholder under the Share Purchase Plan or any similar plan in the previous 12 months;

does not exceed \$5,000.

If an eligible shareholder subscribes for an amount which is not exactly divisible by the issue price for the shares, in calculating the number of shares to be issued, all fractional entitlements will be rounded down to the nearest whole number, and the balance of the subscription amount will be retained by Carnarvon.

6. Issue of Shares

Carnarvon may issue to any person fewer shares than the number the person subscribed for under this Share Purchase Plan (or none at all) if Carnarvon believes that the issue of those shares would contravene this Share Purchase Plan, or any law or ASX Listing Rule.

Shares issued under this Share Purchase Plan will rank equally with all other shares of the same class in Carnarvon on issue at the date of issue, unless the terms of the offer of shares under the Share Purchase Plan provide otherwise.

Following Carnarvon receiving valid acceptances of offers made under this Share Purchase Plan, Carnarvon will:

- (a) issue the accepted shares as soon as reasonably practical after the closing date of the offer;
- (b) apply for those shares to be quoted on the stock market of ASX within the period required by the ASX Listing Rules; and
- (c) send the relevant shareholders a holding statement in respect of the shares issued to them under the Share Purchase Plan within the period required by the ASX Listing Rules.

7. Notices

Notices and statements to eligible shareholders may be given in any manner determined by Carnarvon from time to time.

8. Amendment , suspension and termination

Carnarvon may, in its discretion amend, suspend or terminate this Share Purchase Plan at any time and adopt any administrative procedures it thinks appropriate in relation to the Share Purchase Plan.

9. Dispute resolution

Carnarvon may, in its discretion, settle any difficulties, anomalies or disputes which may arise under or in connection with the operation of this Share Purchase Plan, whether generally or in relation to any shareholder or class of shareholders, offer, acceptance or shares and the decision of Carnarvon will be conclusive and binding on all shareholders and other persons to whom the determination relates.

Carnarvon reserves the right to waive compliance with any provision of this Share Purchase Plan.

10. Interpretation

In this Share Purchase Plan, unless the context otherwise requires:

- (a) if 2 or more persons are recorded in the register of members of Carnarvon as jointly holding shares in Carnarvon they are taken to be a single shareholder and a certification by any of them for the purposes of the certification required is taken to be a certification by all of them;
- (b) if a trustee or nominee is expressly noted on the register of members of Carnarvon as holding shares on account of another person (“**beneficiary**”);
 - (i) the beneficiary is taken to be the shareholder in regard to those shares; and
 - (ii) any application for the issue of shares or certification by, and any issue of shares to, the trustee or nominee is taken to be an application or certification by, or an issue to, the beneficiary;
- (c) a reference to Carnarvon offering shares includes Carnarvon inviting application for the issue of the shares; and
- (d) a reference to market price has the same meaning as in the ASX Listing Rules, namely the closing price on SEATS, excluding special crossings, overnight sales and exchange traded option exercises.



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2 August 2006

Dear Shareholder

**SALE NOTICE TO HOLDERS OF UNMARKETABLE PARCELS OF SHARES PURSUANT TO
CLAUSE 23 OF CARNARVON PETROLEUM LIMITED'S CONSTITUTION**

Our share registry records, maintained by Computershare Investor Services Pty Ltd (Computershare), show that the number of Carnarvon Petroleum Limited (Company) shares held in your name is less than a marketable parcel, defined by the Australian Stock Exchange (ASX) Listing Rules as a parcel of securities of not less than \$500. The closing price of the Company's shares immediately prior to the date of this notice was 5.5 cents and on this basis an unmarketable parcel at this date is 9,090 or less shares.

If you take up the offer pursuant to the share purchase plan notified to you by separate letter dated today you will hold a marketable parcel of shares and this sale notice will no longer apply to you and can be ignored.

You will appreciate that the Company incurs considerable costs to administer shareholdings, and to provide Annual Reports, Notices of Meetings, and other information to its shareholders. To reduce these costs the Company gives notice that if your shareholding in the Company is less than a shareholding of \$500 in value as at the close of ASX trading on the effective date, being 31 July 2006, it is intended that your shares be sold.

If you do not wish for your shares to be sold, you will need to advise the Company in writing in the form attached so that the form is received on or before 15 September 2006. Please send your advice directly to Computershare, GPO Box D182, Perth, Western Australia 6840. If such advice is not received by 15 September 2006 the Company intends to offer your shares for sale on the ASX at the prevailing market price at the time of sale in the absolute discretion of the Board, together with the shares held by all other shareholders holding less than a marketable parcel of shares who have not given notice they wish to retain their shareholding and have been in receipt of this letter and small holding sale facility form. Each shareholder will be entitled to receive for each share sold the average sale price of all shares sold by the Company from non-marketable parcels.

The proceeds from the sale of non-marketable parcels will be paid to shareholders within 14 days of the Company receiving proceeds of the sale. The Company will bear all costs of the sale of the shareholdings.

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If you have any questions regarding this letter or your shareholding, please contact your adviser, Computershare on 1300 557 010, or our Company Secretary, Bob Anderson, at our office.

Yours faithfully

A handwritten signature in black ink, appearing to read 'P. Leonhardt', with a large, sweeping flourish extending to the right.

Peter Leonhardt
Chairman