
CARNARVON PETROLEUM LIMITED

ABN 60 002 688 851

NOTICE OF ANNUAL GENERAL MEETING

TIME: 10.30am (AWST)

DATE: Friday, 14 November 2014

PLACE: Meeting Room 8
Perth Convention and Exhibition Centre
21 Mounts Bay Road
Perth WA 6000

This Notice of Meeting and the accompanying Explanatory Statement set out important details regarding the resolutions that will be put to Shareholders at the 2014 Annual General Meeting of Carnarvon Petroleum Limited. You should read all of the documents carefully.

If you are in doubt as to how you should vote, you should seek independent advice from your accountant, solicitor or other professional adviser prior to voting.

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary, Mr Thomson Naude on (+618) 9321 2665.

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TIME AND PLACE OF MEETING AND HOW TO VOTE

VENUE

The Annual General Meeting of Shareholders to which this Notice of Meeting relates will be held at 10.30am (AWST) on Friday, 14 November 2014 at Meeting Room 8, Perth Convention and Exhibition Centre, 21 Mounts Bay Road, Perth, Western Australia.

MEETING DOCUMENTS

This Notice of Meeting and the accompanying Explanatory Statement set out important details regarding the resolutions that will be put to Shareholders at the 2014 Annual General Meeting of Carnarvon Petroleum Limited. You should read all of the documents carefully.

ENTITLEMENT TO VOTE

Shareholders eligible to vote at the Annual General Meeting will be those persons who are registered Shareholders of the Company at 4.00pm (AWST) on Wednesday, 12 November 2014.

YOUR VOTE IS IMPORTANT

The business of the Annual General Meeting affects your shareholding and your vote is important. If you are in doubt as to how you should vote, you should seek independent advice from your accountant, solicitor or other professional adviser prior to voting.

HOW TO VOTE

You may vote by attending the Annual General Meeting in person, by proxy or attorney, or by an authorised representative (if you are a body corporate).

VOTING IN PERSON

To vote in person, attend the Annual General Meeting on the date and at the place set out above.

VOTING BY PROXY

A Shareholder has the right to appoint a proxy (who need not be a Shareholder). A proxy can be an individual or a body corporate.

If you are entitled to cast two or more votes at the meeting, you may appoint two proxies and you may specify the proportion or number of votes each proxy may exercise. Where two proxies are appointed, a separate form should be used for each.

You are requested to show on the form a specified proportion of your voting rights which a proxy may exercise. If you appoint two proxies and the appointment does not specify the number or proportion of votes each proxy may exercise, each proxy may exercise half the votes.

A Shareholder can direct its proxy to vote for, against or abstain from voting on each resolution by marking the appropriate box in the voting directions section of the proxy form. If a proxy holder votes, they must cast all votes as directed. Any directed proxies that are not voted will automatically default to the Chairman, who must vote the proxies as directed.

The Chairman will vote all undirected proxies in favour of Resolutions 1 to 4.

If the Chairman is to act as your proxy (whether by appointment or by default) and you have not given directions on how to vote in the voting directions section of the proxy form for Resolution 2 (Adoption of Remuneration Report) or Resolution 3 (Approval of issue of securities to Mr Adrian Cook), the proxy form expressly directs and authorises the Chairman to cast your votes "for" the relevant resolution. This express authorisation is included because without it the Chairman would be precluded from casting your votes as these resolutions are connected with the remuneration of key management personnel.

To vote by proxy, please complete and sign the enclosed proxy form and return (together with the original of any power of attorney or other authority, if any, or a certified copy of that power of attorney or other authority under which the proxy form is signed).

Proxy forms should be returned to Link Market Services Limited in accordance with the instructions on the attached proxy form by 10.30am (AWST) Wednesday, 12 November 2014.

Proxy forms received later than the time specified above will be invalid.

The following methods of delivery for proxies are specified:

By post: Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235

Online: www.linkmarketservices.com.au.
Select 'Investor & Employee Login' and enter Carnarvon Petroleum Limited or the ASX code (CVN) in the Issuer name field, your Security Reference Number (SRN) or Holder Identification Number (HIN) (which is shown on the front of your proxy form), postcode and security code which is shown on the screen and click 'Login'. Select the 'Voting' tab and then follow the prompts. You will be taken to have signed your Proxy Form if you lodge it in accordance with the instructions given on the website.

By facsimile: (+612) 9287 0309 (from overseas)
(02) 9287 0309 (from Australia)

By delivery: Link Market Services Limited
1A Homebush Bay Drive
Rhodes NSW 2138

VOTING BY CORPORATE REPRESENTATIVE

A body corporate which is a Shareholder, or which has been appointed as a proxy, is entitled to appoint an individual to act as its representative at the AGM in accordance with section 250D of the Corporations Act.

To appoint a corporate representative, a body corporate must provide the Company with a letter or certificate executed in accordance with the Corporations Act authorising that person to act as the corporate Shareholder's representative at the Meeting. The certificate of appointment of a corporate representative must be lodged with the Company and/or the Share Registrar, Link Market Services Limited, before the AGM or at the registration desk on the day of the AGM. Certificates of appointment of corporate representatives are available on request by contacting Link Market Services Limited on telephone number +61 1300 554 474 or shareholders can download and fill out the 'Appointment of Corporate Representative' form from the website of the share registry of the Company at www.linkmarketservices.com.au select the "Investor Services" tab and click on "Forms".

KEY DATES

Event	Date
Deadline for lodgement of proxy forms	10.30am (AWST) on Wednesday, 12 November 2014
Determination of voting eligibility	4.00pm (AWST) on Wednesday, 12 November 2014
Annual General Meeting	10.30am (AWST) on Friday, 14 November 2014

ENQUIRIES

Shareholders are asked to contact the Company Secretary, Mr Thomson Naude, on (+618) 9321 2665 if they have any queries in respect of the matters set out in these documents.

NOTICE OF ANNUAL GENERAL MEETING

Notice is given that an Annual General Meeting of Shareholders will be held at 10.30am (AWST) on Friday, 14 November 2014 at Meeting Room 8, Perth Convention and Exhibition Centre, 21 Mounts Bay Road, Perth, Western Australia.

The Explanatory Statement to this Notice of Meeting provides additional information on matters to be considered at the AGM. The Explanatory Statement forms part of this Notice of Meeting.

Terms and abbreviations used in this Notice of Meeting and Explanatory Statement are defined in the Glossary.

AGENDA

ORDINARY BUSINESS

ANNUAL FINANCIAL STATEMENTS AND REPORTS

To receive and consider the Annual Financial Report, the Directors' Report and the Audit Report of Carnarvon Petroleum Limited for the financial year ended 30 June 2014.

RESOLUTION 1 – RE-ELECTION OF MR TED JACOBSON AS A DIRECTOR

To consider and, if thought fit, to pass the following resolution as an **ordinary** resolution:

“That Mr Ted Jacobson, who retires by rotation in accordance with rule 35(c) of the Company’s Constitution and, being eligible, offers himself for re-election, be re-elected as a Director of the Company.”

RESOLUTION 2 – ADOPTION OF THE REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2014

To consider and, if thought fit, to pass the following resolution as a **non-binding** resolution:

“That for the purposes of section 250R(2) of the Corporations Act and for all other purposes, approval is given for the adoption of the Remuneration Report as contained in the Directors’ Report of the Company for the year ended 30 June 2014.”

Note: Section 250R(3) of the Corporations Act provides that the vote on this Resolution is advisory only and does not bind the Directors or the Company.

Voting Prohibition

A vote on Resolution 2 must not be cast (in any capacity) by or on behalf of any of the following persons:

- a) a member of the key management personnel, details of whose remuneration are included in the Remuneration Report;
- b) a closely related party of such a member.

However, a person described above may cast a vote on Resolution 2 as a proxy if the vote is not cast on behalf of a person described above and either:

- c) the person is appointed as a proxy by writing that specifies the way the proxy is to vote on the resolution; or
- d) the person is the Chairman of the AGM and the appointment of the Chairman as proxy:
 - i. does not specify the way the proxy is to vote on the resolution; and
 - ii. expressly authorises the Chairman to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the key management personnel for the Company.

SPECIAL BUSINESS

RESOLUTION 3 – ISSUE OF SECURITIES TO MR ADRIAN COOK

To consider and, if thought fit, to pass the following resolution as an **ordinary** resolution:

“For the purposes of ASX Listing Rule 10.14, Chapter 2E of the Corporations Act and for all other purposes, the Company approves the allotment and issue of 1,000,000 fully paid ordinary shares and the associated loan to Mr Adrian Cook, Managing Director and Chief Executive Officer of the Company, or his nominee under the Carnarvon Employee Share Plan on the terms and conditions set out in the Explanatory Statement accompanying this Notice of Meeting.”

Voting Prohibition

A vote on Resolution 3 must not be cast by a person appointed as a proxy if:

- a) the proxy is either:
 - i. a member of the key management personnel; or
 - ii. a closely related party of a member of the key management personnel; and
- b) the appointment does not specify the way the proxy is to vote on the resolution.

However, the above prohibition does not apply if:

- c) the proxy is the Chairman of the AGM; and
- d) the appointment expressly authorises the Chairman to exercise the proxy even though the resolution is connected directly or indirectly with the remuneration of a member of the key management personnel.

Voting Exclusion

The Company will disregard any votes cast on Resolution 3 by or on behalf of a Director (except a Director who is ineligible to participate in any employee incentive scheme of the Company) and any associate of such a Director.

However, the Company will not disregard a vote if:

- a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- b) it is cast by the Chairman of the AGM as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

RESOLUTION 4 – APPROVAL OF PROPORTIONAL TAKEOVER PROVISIONS

To consider and, if thought fit, to pass the following resolution as a **special** resolution:

“That, with effect from the close of the Meeting, for the purposes of sections 136 and 648D of the Corporations Act and for all other purposes, the Company insert into the Company's Constitution the proportional takeover provisions set out in Annexure B to the Explanatory Statement accompanying this Notice of Meeting as rule 72 of the Constitution.”

Dated: 26 September 2014

By order of the Board



Mr Thomson Naude
Company Secretary

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared for the information of Shareholders, in connection with the business to be conducted at the Annual General Meeting to be held at 10.30am (AWST) on Friday, 14 November 2014 Meeting Room 8, Perth Convention and Exhibition Centre, 21 Mounts Bay Road, Perth, Western Australia.

The purpose of this Explanatory Statement is to provide information that the Directors believe to be material to Shareholders in deciding whether or not to approve the Resolutions in the Notice of Meeting.

FINANCIAL STATEMENTS AND REPORTS

The Corporations Act requires the Annual Financial Report, the Directors' Report, and the Auditor's Report ("Annual Report") to be received and considered at the AGM. The Corporations Act does not require Shareholders to vote on the Annual Report. However Shareholders attending the AGM will be given a reasonable opportunity to ask questions about, or make comments on, the financial statements and reports contained within the Annual Report which can be downloaded from the Company's website at www.carnarvon.com.au.

The Company's auditor, Crowe Horwath Perth, will be present at the AGM and Shareholders will have the opportunity to ask the auditor questions in relation to the conduct of the audit, the Auditor's Report, the Company's accounting policies, and the independence of the auditor.

RESOLUTION 1 – RE-ELECTION OF MR TED JACOBSON AS A DIRECTOR

Background

In accordance with rule 35(c) of the Company's Constitution, Mr Ted Jacobson retires by rotation and, being eligible, offers himself for re-election as a Director.

Details of Mr Jacobson's experience and qualifications are set out below.

Term of office: Appointed as a Director in December 2005.

Qualifications: B.Sc (Hons Geology)

Skills and experience: Mr Jacobson is a petroleum geophysicist with over 40 years' experience in petroleum exploration principally in the European North Sea, South East Asia, South America and Australia. Within Australia he has been responsible for initiating a number of petroleum discoveries within the North West Shelf, Cooper Basin, Barrow Sub Basin and Timor Sea. In 1986, Mr Jacobson established the consulting company Exploration Study Projects Pty Ltd which advised companies on new venture opportunities in Australia and South East Asia and assisted in capital raisings and corporate activity. In 1991 Mr Jacobson was co-founder of Discovery Petroleum NL and from 1996 co-founder and technical director of Tap Oil Ltd which grew to a market capitalisation of over \$400 million under his technical leadership. Mr Jacobson retired from Tap in September 2005.

Directors' Recommendation

The Directors (other than Mr Ted Jacobson) unanimously recommend that Shareholders vote in favour of Resolution 1.

RESOLUTION 2 – ADOPTION OF THE REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2014

The Directors' Report for the year ended 30 June 2014 contains a Remuneration Report which sets out:

- the Board's policy for the remuneration of Directors and executive officers; and
- the remuneration details of each Director and each executive officer named in the Remuneration Report.

In accordance with section 250R of the Corporations Act, the Company submits its Remuneration Report for the year ended 30 June 2014 to Shareholders for consideration and adoption by way of a non-binding resolution.

The vote on this resolution is advisory only and does not bind the Directors or the Company, nor does it affect the remuneration paid or payable to the Company's directors or executives. However, the Board will take the outcome of the Resolution into account when considering future remuneration policy.

Under the Corporations Act, if 25% or more of votes that are cast are voted against the adoption of the Remuneration Report at two consecutive annual general meetings, a resolution ("spill resolution") must be put to shareholders at the second of those meetings to determine whether the Directors who were in office at the date of approval of the applicable directors' report must stand for re-election.

If the spill resolution is passed by the requisite majority (being an ordinary resolution), then the Company must convene a general meeting of shareholders (a "spill meeting") within 90 days of the second annual general meeting, at which all of those Directors will cease to hold office but may offer themselves for re-election. This is being referred to as the '2 strikes rule'.

At the Company's 2013 AGM, less than 25% of the votes cast on the resolution to adopt the Company's 2013 remuneration report voted against its adoption. As such, regardless of the voting on Resolution 2, a spill resolution is not required to be considered at the 2014 AGM.

The Chairman of the AGM will give Shareholders a reasonable opportunity to ask questions about or to make comments on the Remuneration Report.

Directors' Recommendation

The Directors unanimously recommend that Shareholders vote in favour of Resolution 2. The Directors acknowledge, however, that they have a personal interest in some aspects of the Remuneration Report.

RESOLUTION 3 – ISSUE OF SECURITIES TO MR ADRIAN COOK

Background

The Company has for some time had in place an Employee Share Plan ("Plan") which provides a mechanism for offering appropriate incentives to the Company's employees and executives. The Plan was last approved by Shareholders at the Company's 2012 AGM.

The Plan is considered to be an appropriate long term incentive scheme given the size and nature of the Company. The Plan only rewards long term share price growth, rather than relative performance. Unlike performance rights, the Plan shares ("ESP Shares") are only of value to the holder of the ESP Shares to the extent which the share price increases by more than 120% of the share price when the offer is made to the participating employee. Further, there are restrictions over the disposal of ESP Shares issued under the Plan, thereby providing a retention incentive to participants. The Plan is considered to be an effective way to align the objectives of management with the interests of Shareholders.

The Company carefully considers the remuneration of its Managing Director, Mr Adrian Cook, as part of the Company's annual employee remuneration review process that occurs in May and June each year. The Board considers that the issue of ESP Shares to Mr Cook is appropriate, particularly given the achievement of key milestones such as the spudding of the Phoenix South well, the securing of new exploration acreage, materially increasing oil production in Thailand and the divesting of half of Carnarvon's interest in its Thailand production asset for a premium to the Company's market value.

The Board has decided to issue Mr Cook (or his nominee) 1,000,000 ESP Shares, and provide an associated loan in respect to these ESP Shares under the terms of the Plan, subject to Shareholders approving Resolution 3.

The ESP Shares will be issued at an average price of 11.5 cents per ESP Share (being a 20% premium to the VWAP of the Company's Shares on ASX over the 5 trading days prior to 13 May 2014, the date on which the Board resolved to make a formal offer of ESP Shares to Mr Cook). The Board notes that the Company's share price has risen substantially since that time, but is of the view that the issue of these ESP Shares to Mr Cook remains appropriate due to his key role in the management of the Company over this period. The Board also notes that under the Plan, there are restrictions over the disposal of these ESP Shares such that the issue of these shares to Mr Cook also provides a retention incentive.

Requirement for Shareholder approval

Shareholder approval is required under the provisions of ASX Listing Rule 10.14 in respect of all securities to be issued to directors (or their associates) under an employee incentive scheme. Further, Chapter 2E of the Corporations Act prohibits a public company from giving a financial benefit to a related party of the Company without prior shareholder approval, unless the benefit falls within one of various exceptions to that prohibition contained in the Corporations Act.

"Related party" is widely defined and includes all directors of a public company. "Financial benefit" has a wide meaning and includes the issue of securities by a public company. Resolution 3, if passed, will confer a financial benefit on a Director of the Company.

Resolution 3 seeks Shareholder approval to the proposed issue of 1,000,000 ESP Shares and the associated loan to Mr Cook under the Plan.

Information requirements for Chapter 2E of the Corporations Act

For the purposes of Chapter 2E of the Corporations Act (and for all other purposes), the following information is provided to Shareholders:

- (a) The proposed financial benefit to be given to Mr Cook (or his nominee) is the issue of 1,000,000 ESP Shares under the Plan and the provision of a limited recourse loan (in accordance with the Plan rules) in connection with that issue. The terms of the Plan and the loan are summarised in Annexure A to this Explanatory Statement.

- (b) The ESP Shares will be acquired by Mr Cook at an average price of 11.5 cents per ESP Share (being a 20% premium to the VWAP of the Company's Shares on ASX over the 5 trading days prior to the date on which the Board resolved to make a formal offer of ESP Shares to Mr Cook).
- (c) If Shareholders approve the issue of ESP Shares under the Plan, Mr Cook (or his nominee) will be deemed to have agreed to borrow the cost of these ESP Shares from the Company to fund the acquisition of the ESP Shares on the terms and conditions set out in the Plan.
- (d) If Shareholders approve the issue of the ESP Shares to Mr Cook, this will dilute the shareholdings of the Company's existing Shareholders by 0.1% (based on the Company's issued capital as at the last practicable date prior to the date of finalising this Explanatory Statement).
- (e) The highest and lowest closing prices of the Company's Shares on the ASX in the 12 months prior to the date of finalisation of this Explanatory Statement were 29.7 cents on 2 September 2014 and 5.1 cents on 10 December 2013.
- (f) The closing price of the Company's shares on ASX on 25 September 2014 (being the last practicable date prior to the finalisation of the Explanatory Statement) was 22.5 cents.
- (g) Based on an average share price of 11.5 cents for this acquisition, the market value of the ESP Shares to be issued to Mr Cook would be \$115,000. The value of the loan to be made to Mr Cook is determined at this time and is therefore \$115,000.
- (h) The Company has used the Black-Scholes Option Pricing Model ("BSOPM") for determining the cost of the share issue for accounting and remuneration purposes as of the date the Board resolved to make a formal offer to Mr Cook under the Plan. The following assumptions were made in valuing the share issue under the BSOPM:
 - a price of 11.5 cents per ESP Share (being a 20% premium to the VWAP of the Company's Shares on ASX over the 5 trading days prior to the date on which the Board resolved to make a formal offer to Mr Cook under the Plan);
 - a risk free interest rate of 2.5%;
 - volatility of 70%; and
 - a vesting period of three years.

Using these assumptions, the BSOPM-determined accounting cost for the issue of the ESP Shares to Mr Cook is approximately 3.8 cents per Share, which produces an accounting cost for the ESP Share issue of \$38,217.

Shareholders should be aware that the indicative value of the ESP Share that are to be issued to Mr Cook, as set out above, is considered to represent the theoretical value for the ESP Shares given the inherent limitations of the BSOPM. Any change in the variables applied in the BSOPM between the date of valuation and the date of issue of the ESP Shares may have a material impact on the value of the ESP Shares.

- (i) The loan of \$115,000 provided by the Company to fund the acquisition of the ESP Shares by Mr Cook is interest-free. At an assumed interest rate of 5%, this represents

an annual interest benefit of \$5,750. The liability of Mr Cook in respect of that loan is limited to the value of the ESP Shares to which the loan relates.

- (j) The remuneration paid or payable to Adrian Cook for the 12 months ending 30 June 2014 is as follows:

Director	Salary and fees	Share based payments	Superannuation	Bonus	Total
Adrian Cook	\$521,250	\$6,333	\$25,000	\$95,594	\$648,177

- (k) The current annual cash remuneration being paid to Adrian Cook is \$547,500 salary including superannuation.
- (l) Adrian Cook currently owns 6,890,000 Shares. Following the issue of the ESP Shares to Mr Cook, he will own 7,890,000 Shares (representing 0.80% of the issued share capital of the Company). Mr Cook also has 640,000 options over ordinary shares.
- (m) The issue of the ESP Shares to Mr Cook will have the following impacts on the Company:
- the issued share capital of the Company will increase by 1,000,000 Shares; and
 - Shareholders' interests will be diluted as set out above.
- (n) Other than Mr Cook, the Directors do not have any interests in the outcome of Resolution 3 for the purposes of section 219(1)(d) of the Corporations Act, other than in their capacity as Shareholders. Mr Cook did not vote at the meeting of the Board to approve the offer of ESP Shares to him and Mr Cook is prohibited from voting at the AGM in respect of Resolution 3.

Information requirements for ASX Listing Rule 10.15

ASX Listing Rule 10.15 sets out a number of matters that must be included in a notice of meeting seeking an approval under ASX Listing Rule 10.14, including the following (some of the matters have already been addressed elsewhere in this section):

- (a) Resolution 3 seeks Shareholder approval for Mr Cook, a director of the Company, to participate in the Plan to a maximum extent of 1,000,000 ESP Shares.
- (b) Mr Cook was awarded 250,000 ESP Shares at 5.9 cents per ESP Share under the Incentive Plan in November 2013 following approval at the annual general meeting on 15 November 2013. Otherwise no ESP Shares have been issued to directors of the Company or their associates under the Plan since Shareholder approval was last received for such an issue on 16 November 2012.
- (c) The ESP Shares will be issued to Mr Cook as soon as practicable following Shareholder approval, but no later than 1 month after the date of the Annual General Meeting.
- (d) The price of the ESP Shares to be issued to Mr Cook is 11.5 cents per ESP Share.

- (e) The terms of the loan in connection with the ESP Shares to be issued to Mr Cook are set out in Annexure A to this Explanatory Statement.
- (f) Mr Cook, being the only executive Director of the Company, is the only Director currently entitled to participate in the Plan.
- (g) A voting exclusion statement in respect of Resolution 3 is included in the Notice of Meeting.

ASX Listing Rule 7.1

The Incentive Plan was approved by Shareholders for the purposes of *Exception 9 of ASX Listing Rule 7.2* at the Company's 2012 AGM. Accordingly, the issue of ESP Shares to Mr Cook pursuant to Resolution 3 will not be included in the calculation of the Company's 15% annual placement capacity for the purposes of ASX Listing Rule 7.1.

Directors' Recommendation

The Directors (other than Mr Cook) have carefully considered the proposed issue of the ESP Shares to Mr Cook, as well as Mr Cook's remuneration package generally, and consider the issue to be an important component of his remuneration package in that it:

- provides a competitive remuneration package, relative to the Company's peers; and
- enhances the effectiveness of the Company's retention strategies for key executives such as Mr Cook.

Accordingly, the Directors (other than Mr Cook), having considered these factors and having considered the alternatives to an issue of ESP Shares to Mr Cook (such as a higher cash-based component of remuneration), believe that the issue of the ESP Shares to Mr Cook is in the best interests of the Company and unanimously recommend that Shareholders vote in favour of Resolution 3.

Mr Cook makes no recommendation to Shareholders in relation to Resolution 3 because he has an interest in the outcome of the Resolution.

To the extent permitted by law, the Chairman intends to vote all undirected proxies in favour of Resolution 3.

Other Information

There are no material opportunity costs to the Company, no taxation consequences to the Company and no material benefits foregone by the Company in issuing the ESP Shares to Mr Cook.

The Directors are not aware of any information other than that set out in this Explanatory Statement that would reasonably be required by Shareholders in order to decide whether or not it is in the Company's interests to pass Resolution 3.

RESOLUTION 4 – APPROVAL OF PROPORTIONAL TAKEOVER PROVISIONS

Background

Under the Corporations Act, a company may include provisions in its constitution to enable it to refuse to register shares acquired under a proportional takeover bid unless a resolution approving the bid is passed by the shareholders. Such provisions cease to apply three years

after they were inserted into the company's constitution, or last renewed by shareholders. A company may insert new provisions by special resolution in the same manner as altering its constitution.

The Company's most recent proportional takeover provisions were renewed in 2002. As these provisions have not been renewed since, they ceased to apply in 2005.

Resolution 4 seeks Shareholder approval by way of special resolution (requiring approval by 75% of the votes cast by Shareholders entitled to vote on the Resolution) to insert new proportional takeover bid provisions into the Constitution so that they remain in effect for three years from the date of the Annual General Meeting. The Directors consider that it is in the best interests of Shareholders to insert new proportional takeover provisions in its Constitution by way of a new rule 72 in the form set out in Annexure B.

Where the approval of shareholders is sought to insert new proportional takeover provisions in a constitution, the Corporations Act requires the company to provide shareholders with an explanation of the proposed proportional takeover approval provisions being inserted. That information is set out below so that Shareholders may make an informed decision on whether to support or oppose this Resolution.

What is a proportional takeover bid?

A proportional takeover bid is a takeover bid where the offer made to each shareholder of a company is only for a proportion of that shareholder's shares in the company.

Accordingly, if a shareholder accepts in full the offer under a proportional takeover bid, the shareholder will dispose of the specified portion of their shares in the company and retain the balance of the shares.

Effect of the provisions to be inserted

If a proportional takeover bid is made to Shareholders, the Board will be required to convene a meeting of Shareholders to vote on a resolution to approve the proportional takeover bid. That meeting must be held at least 14 days before the offer under the proportional takeover bid closes.

The resolution shall be taken to have been passed if a majority of Shares voted at the meeting, excluding the Shares of the bidder and its associates, vote in favour of the resolution. The Directors will breach the Corporations Act if they fail to ensure the resolution to approve the offer is voted on. However, if no resolution is voted on before the end of the 15th day before the close of the offer, the resolution will be deemed to have been passed. Where the resolution approving the offer is passed or deemed to have been passed, transfers of Shares resulting from accepting the offer will be registered provided they otherwise comply with the Corporations Act, the ASX Listing Rules, the ASX Settlement Operating Rules and the Constitution. If the resolution is not approved, then in accordance with the Corporations Act, the offer will be deemed to be withdrawn.

The proportional takeover approval provisions do not apply to full takeover bids and only apply for three years after the date of adoption of the provisions. The provisions may be renewed for a further three year term, but only by a special resolution of Shareholders.

Reasons for proposing Resolution 4

The Directors consider that Shareholders should have the opportunity to insert the proportional takeover approval provisions. Without the inclusion of such provisions, a proportional takeover bid for the Company may enable effective control of the Company to be acquired without

Shareholders having the opportunity to dispose of all of their Shares to the bidder. Accordingly, Shareholders could be at risk of passing control to the bidder without payment of an adequate control premium for all their Shares whilst leaving themselves as part of a minority interest in the Company.

These provisions deal with this possibility by providing that if a proportional takeover bid is made for Shares, Shareholders must vote on whether or not a proportional takeover bid should be permitted to proceed.

The benefit of these provisions is that Shareholders are able to decide collectively whether the proportional takeover bid is acceptable in principle and it may ensure that any partial offer is appropriately priced.

No knowledge of present acquisitions proposals

As at the last date before the finalisation of this Explanatory Statement, no Director is aware of a proposal by any person to acquire, or to increase the extent of, a substantial interest in the Company.

Potential advantages for Directors and Shareholders

The insertion of the proportional takeover approval provisions will enable the Directors to formally ascertain the views of Shareholders in respect of a proportional takeover bid. Without such provisions, the Directors are dependent upon their perception of the interests and views of Shareholders. Other than this advantage, the Directors consider that the insertion of these provisions has no potential advantages or potential disadvantages for them as they remain free to make a recommendation on whether a proportional takeover offer should be accepted.

The Directors consider that inserting new proportional takeover approval provisions will benefit all Shareholders in that they will have an opportunity to consider a proportional takeover bid and then attend or be represented by proxy at a meeting of Shareholders called specifically to vote on the proposal. Accordingly, Shareholders will be able to prevent a proportional takeover bid proceeding if there is sufficient support for the proposition that control of the Company should not be permitted to pass under the proportional takeover bid. The provisions may also help Shareholders avoid being locked in as a minority with one majority Shareholder. In addition, increasing the bargaining power of Shareholders may ensure that any partial offer is adequately priced. Furthermore, knowing the view of Shareholders assists each individual Shareholder in assessing the likely outcome of the proportional takeover bid and whether to accept or reject that bid.

Potential disadvantages for Directors and Shareholders

It may be argued that inserting the proportional takeover provisions will make it more difficult for a proportional takeover bid to succeed and will therefore discourage proportional takeover bids. The chance of a proportional takeover bid being successful may be reduced. In turn, this may reduce the opportunities which Shareholders may have to sell all or some of their Shares at a premium to persons seeking control of the Company. Such a provision may also be considered an additional restriction on the ability of individual Shareholders to deal freely in their Shares.

Directors' recommendation

On balance, the Directors consider that the possible advantages outweigh the possible disadvantages such that the insertion of the proportional takeover approval provisions is in the interests of Shareholders.

The Directors unanimously recommend that Shareholders vote in favour of Resolution 4. Each Director intends to vote all the Shares controlled by him or her in favour of the Resolution.

If Resolution 4 is approved by 75% of the votes cast by members entitled to vote on the Resolution, rule 72 as set out in Annexure B will be inserted into the Constitution and will take effect from the end of the Meeting.

ENQUIRIES

Shareholders are asked to contact the Company Secretary, Mr Thomson Naude, on (+618) 9321 2665 if they have any queries in respect of the matters set out in these documents.

Annexure A – Summary of the Carnarvon Petroleum Limited Employee Share Plan

The terms and conditions of the Employee Share Plan as amended are summarised in the table below.

1. Board	The Board, or a duly appointed committee of the Board, is responsible for the operation of the Plan.
2. Eligible participants	<p>Participation in the Plan is available to any person who is invited by the Board to participate ("Eligible Person").</p> <p>The Company may at any time, in its absolute discretion, make an offer to an Eligible Person.</p> <p>Non-Executive Directors are not eligible to participate in the Plan.</p>
3. Invitations	<p>The Board may at any time, in its absolute discretion, make an offer to an Eligible Person to be issued ESP Shares under the Plan.</p> <p>The offer may be accepted by an Eligible Person or an associate of that Eligible Person, within the given acceptance period.</p>
4. Number of Shares	The number of ESP Shares issued is to be determined by the Directors, subject to the following limitation. The number of ESP Shares issued under the Plan must not exceed 5% of the Company's issued capital at any time ("5% Limitation"), when combined with the number of shares issued or to be issued by the Company during the previous five years, under employee incentive plans operated by the Company.
5. Issue price	The issue price is to be determined by the Board, provided that the issue price is at least 120% of the market price of the Company's Shares, being the weighted average sale price of Shares sold through the ASX on the 5 trading days prior to the proposed date of an offer under the Plan.
6. Ranking	The ESP Shares will rank pari passu with all issued fully paid ordinary shares in respect of voting rights, dividends and entitlement to participate in any bonus or rights issues.
7. Listing	Application for quotation of the ESP Shares on ASX will be made as soon as practicable after the allotment of those shares.
8. Disposal of Shares	Plan participants may not dispose of any ESP Shares within one year of the issue date but, subject to repayment of any associated loan, may dispose of up to 33.3% of their ESP Shares after one year, 66.6% after two years, and 100% after three years.
9. Loan agreement	<p>A loan agreement will be entered into by the Company and the Plan participants in connection with the acquisition of ESP Shares under the Plan, as follows:</p> <ul style="list-style-type: none"> if a participant accepts an offer to receive ESP Shares, they will be taken to have agreed to borrow from the Company on the terms of the loan agreement described below, an amount to fund the purchase of the ESP Shares; until the loan to a participant is fully repaid, the Company has a first right of refusal to buy back the ESP Shares for the

-
- issue price if the participant wishes to sell the ESP Shares; and
- once the loan is repaid in full (and subject to any other restrictions on disposal imposed by the Plan), a participant may deal with the ESP Shares as they wish.

The principal provisions of the loan agreement include:

- the loan amount will be equal to the issue price of the ESP Shares multiplied by the number of ESP Shares issued;
 - the loan can be repaid at any time but a participant must repay any amount outstanding to the Company within 30 days of termination of employment. All dividends declared and paid on the ESP Shares will be applied towards repayment of the advance;
 - there is no interest on the loan;
 - the maximum liability in respect of the loan will be the value of the ESP Shares from time to time; and
 - a holding lock will be placed on the ESP Shares until the loan is fully repaid.
-

Annexure B – Proportional Takeover Bid Provisions

72 Proportional Takeovers

(a) Definitions

Unless the context otherwise indicated or requires, expressions in this rule 72 have the meaning given to them by the Act.

(b) Prohibition on registration of transfers without approval

Where a proportional takeover bid in respect of shares included in a class of shares in the company has been made:

- (1) the registration of a transfer giving effect to a contract resulting from the acceptance of an offer made under the proportional takeover bid is prohibited unless and until a resolution to approve the proportional takeover bid is passed in accordance with this Constitution;
- (2) a person (other than the bidder or an associate of the bidder) who, as at the end of the day on which the first offer under the proportional takeover bid was made, held shares included in that class is entitled to vote on an approving resolution and, for the purposes of so voting, is entitled to 1 vote for each such share;
- (3) neither the bidder nor an associate of the bidder may vote on an approving resolution;
- (4) an approving resolution must be voted on at a meeting, convened and conducted by the company, of the persons entitled to vote on the resolution under the Act; and
- (5) an approving resolution is taken to have been passed if the proportion which the number of votes in favour of the resolution bears to the total number of votes on the resolution is greater than 50%, and otherwise is taken to have been rejected.

Subject to the Act, the directors may determine that the provisions of this rule 72 apply to the registration of a transfer giving effect to a contract resulting from the acceptance of an offer made under a proportional takeover bid that is made prior to the date that this Constitution is adopted or this rule 72 is renewed.

(c) Meetings

- (1) The provisions of this Constitution relating to a general meeting of the company apply, with such modifications as the circumstances require (including, without limitation, to the requisite notice period to ensure that the meeting is convened on or before the approving resolution deadline), in relation to a meeting that is convened for the purposes of this rule 72.
- (2) Where takeover offers have been made under a proportional takeover bid, then the directors must ensure that a resolution to approve the proportional takeover bid is voted on in accordance with this rule 72 before the approving resolution deadline in relation to the proportional takeover bid.

(3) Where a resolution to approve a proportional takeover bid is voted on in accordance with this rule 72 before the approving resolution deadline in relation to the proportional takeover bid, the company must, on or before the approving resolution deadline:

(A) give to the bidder; and

(B) serve on the Exchange,

a written notice stating that a resolution to approve the proportional takeover bid has been voted on and that the resolution has been passed or has been rejected, as the case requires.

(d) Approving resolution deemed to have been passed

Where, as at the end of the day before the approving resolution deadline in relation to a proportional takeover bid under which offers have been made, no resolution to approve the proportional takeover bid has been voted on in accordance with this rule 72, then a resolution to approve the proportional takeover bid is, for the purposes of this rule 72, deemed to have been passed in accordance with this rule 72.

(e) Proportional takeover bid rejected

Where an approving resolution is voted on and is rejected then:

(1) despite section 652A of the Act, all offers under the proportional takeover bid that have not, as at the end of the approving resolution deadline, resulted in binding contracts are deemed to be withdrawn at the end of the approving resolution deadline;

(2) the bidder must immediately, after the end of the approving resolution deadline, return to each member any documents that were sent by the member to the bidder with the acceptance of the offer;

(3) the bidder may rescind and must, as soon as practicable after the end of the approving resolution deadline, rescind each contract resulting from the acceptance of an offer made under the proportional takeover bid; and

(4) a member who has accepted an offer made under the proportional takeover bid is entitled to rescind the contract (if any) resulting from that acceptance.

(f) Effect of this rule 72

This rule 72 ceases to have effect on the third anniversary of the later of the date of its adoption or of its most recent renewal.

Glossary

Annual General Meeting, AGM or Meeting means the meeting convened by this Notice of Meeting.

ASX means ASX Limited, or as the context requires, the financial market operated by it.

ASX Listing Rules or Listing Rules means the listing rules of ASX, as amended from time to time.

ASX Settlement means ASX Settlement Pty Limited.

ASX Settlement Operating Rules means the operating rules of ASX Settlement.

AWST means the time in Perth, Western Australia.

Board means the current board of directors of the Company.

BSOPM means the Black-Scholes Option Pricing Model considered in Resolution 3.

closely related party of a member of the key management personnel means:

- a) a spouse or child of the member; or
- b) a child of the member's spouse; or
- c) a dependent of the member or the member's spouse; or
- d) anyone else who is one of the member's family and may be expected to influence the member or be influenced by the member in the member's dealings with the Company; or
- e) a company the member controls; or
- f) a person prescribed by the Corporations Regulations 2001 (Cth).

Company or Carnarvon means Carnarvon Petroleum Limited (ABN 60 002 688 851/ACN 002 688 851).

Constitution means the Company's constitution.

Corporations Act means the *Corporations Act 2001* (Cth).

Director means a current director of the Company.

Eligible Person means a person eligible to participate in the Plan.

ESP Share means shares issued under the Plan.

Explanatory Statement means the explanatory statement accompanying the Notice of Meeting.

key management personnel has the same meaning as in the accounting standards. Broadly speaking this includes those persons with the authority and responsibility for planning, directing and controlling the activities of the Company (whether directly or indirectly), and includes any directors of the Company.

Notice of Meeting or **Notice of Annual General Meeting** means this notice of Annual General Meeting including the Explanatory Statement.

Plan or **Employee Share Plan** means the Carnarvon Employee Share Plan approved by Shareholder at the 2012 annual general meeting.

Remuneration Report means the Remuneration Report contained in the Directors' Report for the year ended 30 June 2014.

Resolutions means the resolutions set out in the Notice of Meeting, or any one of them, as the context requires.

Share means a fully paid ordinary share in the Company.

Shareholder means a holder of a Share.

Share Registrar means Link Market Services Limited.

VWAP means volume weighted average price.

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By mail:
Carnarvon Petroleum Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia



By fax: +61 2 9287 0309



All enquiries to: Telephone: + 61 1300 554 474

PROXY FORM

I/We being a member(s) of Carnarvon Petroleum Limited and entitled to attend and vote hereby appoint:

STEP 1

APPOINT A PROXY

the Chairman
of the Meeting
(mark box)

OR if you are NOT appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered shareholder) you are appointing as your proxy.

Failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to vote on my/our behalf (including in accordance with the directions set out below or, if no directions have been given, to vote as the proxy sees fit, to the extent permitted by the law) at the Annual General Meeting of the Company to be held at **10:30am (AWST) on Friday, 14 November 2014 in Meeting Room 8, Perth Convention and Exhibition Centre, 21 Mounts Bay Road, Perth WA 6000** (the Meeting) and at any postponement or adjournment of the Meeting.

I/we expressly authorise the Chairman of the Meeting to exercise my/our proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the key management personnel.

The Chairman of the Meeting intends to vote undirected proxies in favour of all items of business.

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting. Please read the voting instructions overleaf before marking any boxes with an

STEP 2

VOTING DIRECTIONS

Resolution 1

Re-election of Mr Ted Jacobson as a Director

For	Against	Abstain*
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Resolution 2

Adoption of the Remuneration Report for the Year ended 30 June 2014

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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Resolution 3

Issue of Securities to Mr Adrian Cook

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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Resolution 4

Approval of Proportional Takeover Provisions

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3

SIGNATURE OF SHAREHOLDERS - THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Sole Director and Sole Company Secretary

Joint Shareholder 2 (Individual)

Director/Company Secretary (Delete one)

Joint Shareholder 3 (Individual)

Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the Corporations Act 2001 (Cth).

CVN PRX401R



HOW TO COMPLETE THIS PROXY FORM

Your Name and Address

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name of that person in Step 1. If you appoint someone other than the Chairman of the Meeting as your proxy, you will also be appointing the Chairman of the Meeting as your alternate proxy to act as your proxy in the event the named proxy does not attend the Meeting.

Votes on Items of Business - Proxy Appointment

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- (a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- (b) return both forms together.

Signing Instructions

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either shareholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

Corporate Representatives

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry or online at www.linkmarketservices.com.au.

Lodgement of a Proxy Form

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **10:30am (AWST) on Wednesday, 12 November 2014**, being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid for the scheduled Meeting.

Proxy Forms may be lodged using the reply paid envelope or:



ONLINE  www.linkmarketservices.com.au

Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the Proxy Form).



by mail:

Carnarvon Petroleum Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia



by fax:

+61 2 9287 0309



by hand:

delivering it to Link Market Services Limited, 1A Homebush Bay Drive, Rhodes NSW 2138 or Level 12, 680 George Street, Sydney NSW 2000.

**If you would like to attend and vote at the Annual General Meeting, please bring this form with you.
This will assist in registering your attendance.**