

CARNARVON PETROLEUM LIMITED

ABN 60 002 688 851

PROSPECTUS

For a non-renounceable rights issue of approximately 45,385,360 New Shares at an issue price of 3.3 cents each on the basis of one New Share for every five Ordinary Shares and approximately 22,692,680 attaching New Options on the basis of one New Option for every two New Shares held to raise approximately \$1,497,717.

This document is important and requires your immediate attention. It should be read in its entirety. If you are in doubt as to the course you should follow, you should consult your stockbroker or other professional adviser.

Please read the instructions on the accompanying Entitlement and Acceptance Form and Shortfall Shares and Shortfall Options Application Form if you wish to subscribe for the New Shares and attaching New Options to be issued pursuant to this Prospectus.

CORPORATE DIRECTORY

Directors

A G Shelton (Non-Executive Chairman)

D J Orth (Executive Director)

N C Fearis (Non-Executive Director)

Secretary

T S Irwin

Registered Office

Level 50

120 Collins Street

MELBOURNE VIC 3000

Tel: +61 3 9225 5400

Fax: +61 3 9225 5050

Internet: <http://www.carnarvon.com>

Email: admin@carnarvonpetroleum.com

Share Registry – Australia

Computershare Investor Services Pty Ltd

Level 2

45 St George's Terrace

PERTH WA 6000

Tel: +61 8 9323 2000

Fax: +61 8 9323 2033

Stock Exchange Listing

Carnarvon Petroleum Limited is listed on the Australian Stock Exchange

ASX Code: CVN

CARNARVON PETROLEUM LIMITED

Important Notice

This Prospectus is dated 5 February 2004. A copy of this Prospectus was lodged with the ASIC on 5 February 2004. The ASIC takes no responsibility as to the contents of this Prospectus.

No securities will be allotted or issued on the basis of this Prospectus after 4 March 2005.

This is an important document. Before deciding to apply for the New Shares and attaching New Options you should consider whether they are a suitable investment for you. Persons wishing to subscribe for New Shares and New Options offered by this Prospectus should carefully read this Prospectus and consult their professional advisers for the purpose of making an informed assessment of the effect of the Rights Issue on Carnarvon and the rights and liabilities attaching to, and the nature of, the New Shares and New Options offered by this Prospectus.

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A copy of this Prospectus can be downloaded from the website of the Company at www.carnarvon.com. Any person accessing the electronic version of this Prospectus for the purposes of making an investment in the Company must be an Australian resident and must only access the Prospectus from within Australia. The Corporations Act prohibits any person distributing the Entitlement and Acceptance Form or Shortfall Shares and Shortfall Options Application Form unless they are included in or accompany a hard copy of this Prospectus in the same format, which may be obtained by contacting the Company.

SUMMARY OF IMPORTANT DATES

Announcement of Rights Issue	5 February 2004
Record Date to determine entitlements to New Shares and New Options	13 February 2004
Opening date for receipt of acceptances	16 February 2004
Last day for acceptances and payment in full	2 March 2004
Allotment and dispatch of holding statements for New Shares and New Options	11 March 2004

Note: These dates are indicative only. The Company reserves the right to vary the Closing Date without prior notice.



**CARNARVON
PETROLEUM
LIMITED**
ACN 60 002 688 851

CARNARVON PETROLEUM LIMITED

CHAIRMAN'S LETTER

Dear Shareholder,

Carnarvon Petroleum Limited is offering Shareholders the opportunity to participate in a one for five non-renounceable rights issue to raise new equity for Carnarvon. For every five shares you presently hold, you are offered one new fully paid share at a price of 3.3 cents. In addition, each two New Shares carries with it a New Option exercisable at 6 cents on or before 31 December 2005, which is intended to provide Shareholders with an immediate benefit the value of which is likely to be enhanced with the Company's future success.

Funds raised by the rights issue will be used as working capital by the Company to fund its share of the development drilling program in the Wichian Buri Oil Field in Central Thailand in which the Company has a 40% interest.

Despite the volatility in world capital markets, the Directors are keen to progress the Company's prospects by drilling production wells in Thailand and improving cash flows.

Shareholders are urged to read this Prospectus carefully before deciding whether to participate in the rights issue.

Exploration for hydrocarbons is, by its nature, a speculative activity, but your Directors are encouraged by the potential targets that have been identified and believe these targets would, if the Company's exploration and development efforts are successful, mean an increase in the Company's value.

The Directors of Carnarvon believe that the pricing of the rights issue is attractive and are unanimous in commending the issue to you. Each Director intends to take up his entitlement in full.

Yours sincerely,

CARNARVON PETROLEUM LIMITED

Andrew Shelton

CHAIRMAN

February 5, 2004

Key terms of Rights Issue

1.1 The Offer

This is an offer of approximately 45,385,360 New Shares to the Shareholders of the Company who are registered on the Record Date. The New Shares are being offered on the basis of one New Share for every five Ordinary Shares then held. Each two New Shares will have one attaching New Option.

Under the Rights Issue, Carnarvon is seeking to raise approximately \$1,497,717 (before costs).

1.2 Issue Price

The issue price is 3.3 cents per New Share and is payable in full on application.

1.3 Fractional Entitlements

Fractional entitlements will be rounded up to the nearest whole New Share or New Option. The number of New Shares to which you are entitled is shown on the accompanying Entitlement and Acceptance Form.

1.4 Purpose of the Rights Issue

The net proceeds from the Rights Issue will be used as working capital to finance the exploration and development of permits in the Company's existing portfolio as well as to look for new opportunities in acquiring proven or producing oil and gas fields to which the Company can add value through technical enhancements. Further details of the purpose of the Rights Issue are set out in this Prospectus.

1.5 Opening and Closing Dates

The Rights Issue will open for receipt of acceptances on 16 February 2004 and closes on 2 March 2004. The Directors reserve the right to close the Rights Issue early or extend the Closing Date. Shareholders are therefore urged to lodge their Entitlement and Acceptance Form and Shortfall Shares and Shortfall Options Application Form as soon as possible.

1.6 Rights Trading

The rights to the New Shares (and attaching New Options) are non-renounceable and therefore cannot be traded on the ASX.

1.7 Acceptances

Eligible Shareholders may accept all or part of their entitlement.

Instructions for completion are set out on the accompanying Entitlement and Acceptance Form. Acceptance must not exceed your entitlement as shown on that form. You may apply for additional New Shares using a separate and enclosed Shortfall Shares and Shortfall Options Application Form; however there is no guarantee that you will receive New Shares in excess of your entitlement. Further details of the Board's intended allocation policy are set out in section 1.13.

Cheques should be made payable to "Carnarvon Petroleum Limited – Rights Issue Account" and crossed "Not Negotiable".

1.8 Stock Exchange Listing

Application will be made within seven days after the date of this Prospectus for the New Shares and New Options offered under this Prospectus to be granted official quotation by the ASX.

If the New Shares and New Options are not admitted to quotation on the ASX within three months after the date of this Prospectus, none of the New Shares or New Options offered under this Prospectus will be allotted or issued.

The ASX takes no responsibility for the contents of this Prospectus.

1.9 Rights Attaching to Shares

The New Shares issued will rank equally with existing Ordinary Shares on issue. The rights and liabilities attaching to the New Shares offered under this Prospectus are set out in the Constitution of the Company and in the Corporations Act.

The principal rights and liabilities attaching to the New Shares and existing Ordinary Shares are summarised in Annexure A.

1.10 Rights Attaching to New Options

The terms and conditions of the New Options are summarised in Annexure B. Shares issued upon exercise of New Options will rank *pari-passu* in all respects with existing Ordinary Shares.

1.11 There Are No Options Currently Quoted on the ASX.

The Company currently has no options on issue.

1.12 Minimum Subscription

There is no minimum subscription to the Rights Issue.

1.13 Allocation policy

To the extent that New Shares and attaching New Options are not taken up, the Rights Issue has been underwritten by entities associated with certain Directors up to a maximum of 3,801,484 New Shares (and attaching New Options). The terms of the underwriting is set out in the Underwriting Agreements dated 5 February 2004. A summary of the Underwriting Agreements is set out in section 4.3. The existing interests of the Directors in the Company are set out in section 4.4.

To the extent that there is a shortfall which is not underwritten, the Directors reserve the right to issue any such shortfall in subscription for New Shares (and attaching New Options) (**Shortfall Shares** and **Shortfall Options**) at their discretion within 3 months after the Closing Date.

The Directors will apply the following principles in allocating Shortfall Shares and Shortfall Options.

- (a) Existing shareholders (other than related parties of the Company) who currently hold less than 10,000 shares who apply for New Shares in excess of their entitlement will be issued those additional New Shares up to a maximum of 100,000 additional New Shares and 50,000 attaching New Options.
- (b) Existing shareholders (other than related parties of the Company) who currently hold more than 10,000 shares who apply for New Shares in excess of their entitlement will be given priority allocation of Shortfall Shares and Shortfall

Options after applications for additional New Shares from the shareholders described in (a) above have been satisfied.

Save as set out above, no limit applies to the number of Shortfall Shares and Shortfall Options for which an existing shareholder (other than a related party of the Company) can apply.

- (c) For any remaining Shortfall Shares and Shortfall Options, the Directors will use their sole discretion.

1.14 Placement Fee

The Company will pay a placement fee of 5% to financial services licensees who assist the Directors in placing any Shortfall Shares and Shortfall Options.

1.15 Overseas Shareholders

This offer is only being extended to shareholders with registered addresses in Australia and New Zealand. The Company has determined, in accordance with the Listing Rules, that it would be unreasonable to make an offer under this Prospectus to other shareholders (Non-Resident Shareholders) having regard to:

- the number of shareholders in the places where the offer would be made;
- the number and value of the New Shares and New Options that would be offered; and
- the cost of complying with the legal requirements in those places.

No Entitlement and Acceptance Forms nor Shortfall Shares and Shortfall Options Application Forms are being sent to Non-Resident Shareholders, and this Prospectus is being sent to them for information purposes only.

Neither this Prospectus nor the Entitlement and Acceptance Form nor the Shortfall Shares and Shortfall Options Application Form constitute an offer of, or an invitation by or on behalf of the Company to subscribe for or purchase any of the New Shares (or attaching New Options) in any jurisdiction or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this Prospectus and Entitlement and Acceptance Form and Shortfall Shares and Shortfall Options Application Form, and the offering of New Shares and attaching New Options, in certain jurisdictions may be restricted by law. Persons into whose possession such documents come should inform themselves about and comply with those restrictions.

1.16 Use of proceeds

The net proceeds from the Rights Issue will primarily be used as working capital to finance the exploration and development of permits in the Wichian Buri Oil Field in Central Thailand, as well as to look for new opportunities in acquiring proven or producing oil and gas fields to which the Company can add value through technical enhancements.

2 Summary of actions required if you wish to subscribe for the New Shares and New Options

2.1 What you may do

The number of New Shares and attaching New Options to which you are entitled is shown in the accompanying Entitlement and Acceptance Form. You may:

- take up all of your entitlement to New Shares and attaching New Options;
- take up all of your entitlement to New Shares and attaching New Options and apply for additional New Shares and additional New Options;
- take up part of your entitlement and allow the balance to lapse; or
- not take up any of your entitlement and allow it to lapse.

2.2 Take up all or part of your entitlement

If you wish to take up all of your entitlement, please complete the accompanying Entitlement and Acceptance Form in accordance with the instructions on it. Forward your completed Entitlement and Acceptance Form (together with your cheque or bank draft for the amount shown on that form) to reach the Company's share registry, Computershare Investor Services Pty Limited, by not later than 5.00pm (Melbourne time) on 2 March 2004. Cheques should be made payable to "Carnarvon Petroleum Limited – Rights Issue Account" and crossed "Not Negotiable".

You can take up part of your entitlement by completing the number of New Shares and attaching New Options for which you wish to apply for on the Entitlement and Acceptance Form.

2.3 Entitlements not taken up

If you decide to take up only part of your entitlement or not to accept any of your entitlement, your entitlement will lapse to that extent and may be taken up by other shareholders in accordance with section 1.13 or placed by the Directors at their discretion within 3 months after the Closing Date. This may include placement to the Underwriters, to the extent of their underwriting commitments (as described in section 4.3).

If you have any queries concerning this offer, please contact:

Computershare Investor Services Pty Limited

Level 2

45 St Georges Terrace

PERTH WA 6000

Phone: +61 8 9323 2000

Fax: +61 8 9323 2033

OR

The Company Secretary

Carnarvon Petroleum Limited

Level 50

120 Collins Street

MELBOURNE VIC 3000

Phone: +61 3 9225 5400

Fax: +61 3 9225 5050

OR

Contact your stockbroker or other professional adviser

2.4 Apply for New Shares and New Options in excess of your entitlement

If you wish to apply for additional New Shares (and attaching New Options), complete the Shortfall Shares and Shortfall Options Application Form in accordance with the instructions on it.

3 EFFECT OF RIGHTS ISSUE ON THE COMPANY

3.1 Capital Structure

	Number
Quoted issued share capital of the Company at 30 January 2004:	197,327,650
Placement announced 29 January 2004 (issue pending)	29,599,418
 New Shares offered by this Prospectus:	 45,385,360
 Total number of shares on issue after all shares are taken up:	 272,312,428
Options attaching to placement announced 29 January 2004 - one free option per two ordinary shares placed*:	14,799,709
Options to be issued to Dalkeith Resources Pty Ltd	1,000,000
New Options offered by this Prospectus:	22,692,680
Total Options assuming a 100% take up:	38,492,389

*The issue of the Placement Options and Dalkeith Options is subject to shareholder approval which will be sought at a general meeting to be convened as soon as practicable.

3.2 Financial Position

The principal effect of the Rights Issue on the Company will be to:

- increase cash reserves by approximately \$1,497,717 (before expenses of the Rights Issue); and
- increase the number of issued shares by approximately 45,385,360. If all the New Options were exercised, an additional 22,692,680 shares will be issued, increasing the number of shares on issue to 265,405,690.

Assuming shareholders approve the issue of the Placement Options and the Dalkeith Options:

- (a) if all of the Placement Options were also exercised, an additional 14,799,709 shares will be issued; and
- (b) if all of the Dalkeith Options were exercised, an additional 1,000,000 shares will be issued.

This would increase the number of shares on issue to 310,804,817.

Carnarvon will receive no additional consideration for the issue of the New Options, the Placement Options or the Dalkeith Options.

If all the New Options, and Placement Options and Dalkeith Options are exercised, the Company will receive \$2,309,543 in total, being:

- (a) \$1,361,560 for the New Options;
- (b) \$887,983 for the Placement Options; and

(c) \$60,000 for the Dalkeith Options.

The likelihood of the Company raising this additional capital through the exercise of the New Options, Placement Options and Dalkeith Options is dependent, amongst other things, on the price of the Company's shares from time to time up to the expiry date of the options.

Statement of Financial Position

	Consolidated 31 December 2003 Pro Forma*	Pro-Forma following receipt of Prospectus funds **
Current Assets		
Cash	203,091	2,377,580
Receivables	71,619	71,619
Prepayments and other assets	121,929	121,929
Total Current Assets	396,639	2,571,128
Non-Current Assets		
Receivables	194,025	194,025
Other financial assets	212,697	212,697
Plant and equipment	185,091	185,091
Deferred exploration and development costs	4,741,817	5,041,817
Total Non-Current Assets	5,333,630	5,633,630
Total Assets	5,730,269	8,204,758
Current Liabilities		
Payables	441,690	441,690
Provisions		
Total Liabilities	441,690	441,690
Net Assets	5,288,579	7,763,068
Equity		
Contributed equity	43,076,355	45,550,844
Accumulated losses	(37,787,776)	(37,787,776)
Total Equity	5,288,579	7,763,068

* Un-audited data as at 31 December 2003

** Un-audited data reflecting receipt of funds from the Prospectus and the placement announced on 29 January 2004 but excluding the exercise of Placement Options, New Options or Dalkeith Options.

4 ADDITIONAL INFORMATION

4.1 Disclosing Entity

This Prospectus is issued pursuant to section 713 of the Corporations Act as a prospectus for the offer of continuously quoted securities.

Carnarvon is a "disclosing entity" for the purposes of the Corporations Act and as such is subject to regular reporting and disclosure obligations. Specifically, as a listed company, Carnarvon is subject to the Listing Rules of the ASX which require continuous disclosure to the market of any information the Company has which a reasonable person would expect to have a material effect on the price or value of the Company's shares.

The ASX maintains files containing publicly disclosed information about all listed companies. The Company's file is available for inspection at the ASX in Perth during normal working hours. In addition, copies of documents lodged with the ASIC in relation to the Company may be obtained from, or inspected at, any Regional Office of the ASIC.

4.2 Information Available to Shareholders and Prospective Investors

The Company will provide a copy of each of the following documents free of charge, to any Shareholder or prospective investor who so requests during the application period under this Prospectus:

- the 2003 Annual Report of Carnarvon which contains the financial statements and consolidated financial statements for the 2002/03 financial year; and
- the following announcements lodged with the ASX since release of the 2003 Annual Report:

29/1/2004	451 Phase III Drilling In Thailand
29/1/2004	450 Appendix 3B New Issue Announcement
21/1/2004	449 Appendix 3Y - Change Of Directors Interest Notice
21/1/2004	448 Appendix 3Y - Change Of Directors Interest Notice
21/1/2004	447 Appendix 3Y - Change Of Directors Interest Notice
21/1/2004	446 Appendix 3Y - Change Of Directors Interest Notice
21/1/2004	445 Appendix 3Y - Change Of Directors Interest Notice
21/1/2004	444 Appendix 3Y - Change Of Directors Interest Notice
21/1/2004	443 Appendix 3Y - Change Of Directors Interest Notice
7/1/2004	442 Phase III Update Including Huai Phai-1 Results
6/1/2004	441 Final Director's Interest Notice - Appendix 3Z
5/1/2004	440 Notification of Resignation of Non-Executive Director
23/12/03	439 Wichian Buri drilling results
17/12/03	438 Wichian Buri drilling results
16/12/03	437 Wichian Buri drilling results
15/12/03	436 Wichian Buri drilling results
12/12/03	435 Wichian Buri drilling results

11/12/03	434 Wichian Buri drilling results
10/12/03	433 Wichian Buri drilling results
8/12/03	432 Wichian Buri drilling results
8/12/03	431 Wichian Buri drilling results
5/12/03	430 Wichian Buri drilling results
4/12/03	429 Wichian Buri drilling results
3/12/2003	428 Huai Phai-1 Drilling Operations
2/12/2003	427 Results of Annual General Meeting
28/11/2003	426 Notification Of Change of Executive Management
26/11/2003	425 Amendment to Spud Date: Huai Phai-1
19/11/2003	424 Amendment to Spud Date: Huai Phai-1
13/11/2003	423 Supplementary Notice of Meeting
13/11/2003	422 Appendix 3B Share Issue Announcement
31/10/2003	421 Quarterly Report for September 2003
28/10/2003	420 2003 Annual Report & Notice of AGM
24/10/2003	419 Amendment to Spud Date: Huai Phai-1
21/10/2003	418 Drilling of the Huai Phai Prospect
16/10/2003	417 Agreement reached on forward work program
7/10/2003	416 Share issue to fund working capital
30/9/2003	415 2003 Audited Full Year Accounts
25/9/2003	414 Drilling of Huai Phai Prospect, Onshore Thailand
28/08/03	413 Appendix Change of Director's Interests Notice
30/7/2003	412 Quarterly Report June 2003
18/7/2003	411 Change of Registered Address and Contact Details
18/7/2003	410 Notification of Change of Executive Management

There is no information which has been excluded from a continuous disclosure notice in accordance with the Listing Rules that Shareholders or their professional advisers would reasonably require for the purpose of making an informed assessment of:

- (a) the assets and liabilities, financial position and performance, profits and losses and prospects of the Company; or
- (b) the rights and liabilities attaching to the New Shares or New Options.

4.3 Underwriting agreements with certain Directors

The Company has entered into two separate unconditional Underwriting Agreements dated 5 February 2004 with entities associated with certain Directors whereby they have agreed to severally underwrite the subscription of the New Shares (and attaching New Options) issued under this Prospectus up to a maximum of 3,801,484 New Shares (and attaching New Options).

The extent of the underwriting is specified in the following table:

Name of Directors	No of New Shares (and attaching New Options) underwritten
NC Fearis Pendomer Investments Pty Ltd	600,000
AG Shelton Arne Investments Pty Ltd	3,201,484

The Underwriters will not receive an underwriting fee.

4.4 Directors' Interests

Other than as set out below or elsewhere in this Prospectus:

- (a) no Director or proposed Director has, or has had in the two years before the date of this Prospectus, any interests in:
- the formation or promotion of the Company;
 - property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Rights Issue; or
 - the Rights Issue; and
- (b) no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to:
- any Director or proposed Director to induce him or her to become, or to qualify as, a Director of the Company; or
 - any Director or proposed Director for services which he or she has provided in connection with the formation or promotion of the Company or the Rights Issue.

Interest in Shares

The Directors and their related entities have the following interests in the Company's shares as at the date of this Prospectus:

Director	Existing Shares	
	Direct interest	Director related entity interest
AG Shelton		6,007,421
NC Fearis	271,400	1,500,000
DJ Orth		2,788,667

4.5 Interests of People Involved in the Rights Issue

Other than as set out below or elsewhere in this Prospectus:

- (a) no promoter of the Company or person named in this Prospectus as having performed a function in a professional, advisory or other capacity in connection

with the preparation or distribution of this Prospectus has, or has in the two years before the date of this Prospectus had, any interest:

- in the formation or promotion of the Company;
 - in property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Rights Issue; or
 - in the Rights Issue; and
- (b) no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any promoter of the Company, stockbroker or underwriter to the Rights Issue or other person named in this Prospectus as having performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus or provided in connection with the formation or promotion of the Company or the Rights Issue.

4.6 Expenses of the Rights Issue

The total expenses connected with the Rights Issue, including legal and other advisory fees, listing, printing and other miscellaneous expenses are estimated to be \$ 130,000.

4.7 Consents

The following parties have given and have not at the date of this Prospectus withdrawn their written consent to being named in this Prospectus. None of these parties has caused or authorised the issue of this Prospectus or has in any way been involved in the making of the Rights Issue.

Computershare Investor Services Pty Limited has given and has not withdrawn its written consent to be named as Share Registrar in the form and context in which it is named. Computershare Investor Services Pty Limited has had no involvement in the preparation in any part of the Prospectus other than being named as Share Registrar to the Company. Computershare Investor Services Pty Limited has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of the Prospectus.

4.8 Directors' Authorisation

Each Director has consented to the lodgement and issue of this Prospectus.

Signed in accordance with a resolution of the Directors.

David Orth
Director

5 Definitions

“**ASIC**” means the Australian Securities and Investments Commission

“**ASX**” means Australian Stock Exchange Limited

“**Carnarvon**” or “**the Company**” means Carnarvon Petroleum Limited (ABN 60 002 688 851)

“**Corporations Act**” means the Corporations Act 2001 (Commonwealth)

“**Closing Date**” means 2 March 2004

“**Dalkeith Options**” means the 1,000,000 options agreed to be issued by the Company to Dalkeith Resources Pty Ltd, subject to shareholder approval, as full payment of fees for consulting services in relation to the placement. These options, when issued, will have the same exercise price, expiry date and other terms as the New Options in the Rights Issue.

“**Director**” or “**Directors**” means a Director or Directors of Carnarvon

“**Entitlement and Acceptance Form**” means the Entitlement and Acceptance Form accompanying this Prospectus

“**New Options**” means options to subscribe for Ordinary Shares with an exercise price of 6 cents each expiring on 31 December 2005 issued pursuant to the Rights Issue

“**New Shares**” means Ordinary Shares issued pursuant to the Rights Issue

“**Ordinary Shares**” means fully paid ordinary shares in the Company

“**Placement Options**” means the 14,799,709 options agreed to be issued by the Company, subject to shareholder approval, as part of the placement announced to the ASX on 29 January 2004. Those options, when issued, will have the same exercise price, expiry date and other terms as the New Options comprised in the Rights Issue

“**Melbourne time**” means Australian Eastern Standard Time

“**Prospectus**” means this document dated 5 February 2004

“**Record Date**” means 5.00pm (Melbourne time) on 13 February 2004

“**Rights Issue**” means the non-renounceable rights issue the subject of this Prospectus

“**Shareholders**” means a holder of Ordinary Shares

“**Shortfall Shares and Shortfall Options Application Form**” means the Shortfall Shares and Shortfall Options Application Form that accompanies this prospectus

“**Shortfall Shares**” and “**Shortfall Options**” means the number of New Shares and New Options not taken up by Shareholders pursuant to the Rights Issue the subject of this Prospectus

“**Underwriters**” means Pender Investments Pty Ltd (a company associated with Mr N C Fearis) and Arne Investments Pty Ltd (a company associated with Mr A G Shelton)

“**Underwriting Agreements**” means each of the underwriting agreements between the Company and the Underwriters dated 5 February 2004.

Annexure A - Rights and liabilities attaching to New Shares and existing Ordinary Shares

Full details of the rights and liabilities attaching to the New Shares and existing Ordinary Shares are set out in the Carnarvon constitution (**Constitution**), a copy of which can be inspected at the Company's registered office during normal business hours. A broad summary (although not an exhaustive or definitive statement) of the rights and liabilities attaching to the New Shares and existing Ordinary Shares is outlined below. All New Shares issued under this Prospectus are of the same class and rank equally in all respects with the existing Ordinary Shares on issue.

(a) Meetings of Shareholders and voting rights

Subject to the Constitution, each Shareholder is entitled to receive a notice of a general meeting.

Subject to the Constitution, at a general meeting, each Shareholder entitled to vote may attend and vote in person or by proxy, attorney or representative.

At a general meeting, a resolution put to the vote shall be decided on a show of hands unless a poll is demanded. On a show of hands, every Shareholder present has one vote. On a poll, every Shareholder present has one vote for each fully paid share held by them and may vote in person, by proxy, by attorney or by representative. A Shareholder who holds a partly paid share, in respect of which the Shareholder is entitled to vote, shall be entitled to a fraction of a vote equal to the proportion which the amount paid up on the share bears to the total amounts paid.

(b) Dividend

The Directors may declare and pay such interim and final dividends as, in their judgment, the financial position of the Company justifies. All dividends must be declared and paid to the Shareholders.

(c) Winding up

Shareholders will be entitled, in a winding up, to any surplus assets of the Company in proportion to the shares held by them.

If the Company is wound up, the liquidator may, with the sanction of a special resolution, divide among the Shareholders the whole or any part of the property of the Company and determine how the division is to be carried out as between the members or different classes of Shareholders.

(d) Transfer of shares

Subject to the Constitution, a Shareholder may transfer all or any of their shares in any manner permitted by law transfer or an instrument in writing in any form that the Directors approve. The transferor of shares remains the holder of the shares until a proper ASTC regulated transfer has been effected or the name of the transferee is entered in the register of Shareholders of Carnarvon.

The Directors may decline to register a transfer of shares where the transfer is not in registrable form or where permitted to do so under the ASX Listing Rules or the SCH Business Rules.

(e) New issues of securities

Subject to the Constitution and the ASX Listing Rules, the Directors may issue, grant options in respect of, or otherwise dispose of, shares on such conditions, at such times

and with such preferred, deferred or other special rights or restrictions, whether with regard to dividend, voting, return of capital or otherwise as the Directors think fit.

(f) Alteration of capital

Carnarvon may, by resolution, increase its share capital by the creation of new shares, consolidate and divide its share capital into shares of larger amount than its existing shares, subdivide its shares into smaller amounts or cancel shares which have not been taken by any person or which have been forfeited and reduce its authorised share capital by the amount of the shares so cancelled.

Annexure B - Terms and conditions of New Options

A complete list of the terms and conditions of the New Options is available upon request from the Company. A summary of the terms and conditions of the Options is set out below.

- 1 The New Options may be exercised by notice in writing to the Company received at any time on or before 31 December 2005 (Expiry Date).
- 2 The New Options may be exercised in whole or in part.
- 3 The exercise price for each New Option shall be 6 cents payable in cash.
- 4 The New Options may be transferred at any time in whole or in part.
- 5 A notice under the CHES system instead of a certificate will be issued for the New Options. On the reverse side of the notice there will be an endorsed statement of rights of the New Option holder and a notice of exercise of option that is to be completed when exercising the New Options. If there is more than one New Option comprised in the notice and prior to the Expiry Date those New Options are exercised in part the Company will issue another notice for the balance of the New Options held and not exercised.
- 6 The New Option holder will be permitted to participate in any new pro-rata issue of securities of the Company on the prior exercise of the New Options in which case the New Option holder will be afforded the period of a least 10 business days prior to and inclusive of the books closing date (to determine entitlements to the issue) to exercise the New Options.
- 7 In the event of any reorganisation of the issued capital of the Company, the rights of a New Option holder will be changed to the extent necessary to comply with the applicable ASX Listing Rules in force at the time of the reorganisation.
- 8 The New Options will not give any right to participate in dividends until shares are allotted pursuant to the exercise of the New Options.
- 9 Application will be made to the ASX for the listing of the New Options offered under the Prospectus.
- 10 Shares allotted or issued pursuant to the exercise of a New Option will be allotted or issued on the terms and conditions on which the New Options are issued and not more than 10 days after the receipt of a properly executed notice and application monies in respect of the exercise of a New Option and will rank equally with the then issued ordinary shares of Carnarvon and the Company will make application for the listing of such shares on the Official Listing of the ASX on or before the third day on which the ASX is open after the date of issue or allotment of those shares.

Each New Option shall confer the right to take up one fully paid ordinary share in the Company.