
CARAVEL ENERGY LIMITED
(TO BE RENAMED “ANTARES MINING LIMITED”)
ACN 119 047 693

NOTICE OF GENERAL MEETING

TIME: 9:30am (WST)

DATE: 12 September 2014

PLACE: Level 1
330 Churchill Avenue
Subiaco WA 6008

This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on +61 8 9200 4268.

CONTENTS

Business of the Meeting (setting out the proposed Resolutions)	5
Explanatory Statement (explaining the proposed Resolutions)	6
Glossary	29
Schedule 1 – Pro Forma Balance Sheet	31
Proxy Form	33

IMPORTANT INFORMATION

Time and place of Meeting

Notice is given that the Meeting will be held at 9:30am (WST) on 12 September 2014 at:

Level 1
330 Churchill Avenue
Subiaco WA 6008

Your vote is important

The business of the Meeting affects your shareholding and your vote is important.

Voting eligibility

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the Meeting are those who are registered Shareholders at 5:00pm (WST) on 10 September 2014.

Voting in person

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

Voting by proxy

To vote by proxy, please complete and sign the enclosed Proxy Form and return by the time and in accordance with the instructions set out on the Proxy Form.

In accordance with Section 249L of the Corporations Act, Shareholders are advised that:

- each Shareholder has a right to appoint a proxy;
- the proxy need not be a Shareholder of the Company; and
- a Shareholder who is entitled to cast 2 or more votes may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If the member appoints 2 proxies and the appointment does not specify the proportion or number of the member's votes, then in accordance with Section 249X(3) of the Corporations Act, each proxy may exercise one-half of the votes.

Shareholders and their proxies should be aware that changes to the Corporations Act made in 2011 mean that:

- if proxy holders vote, they must cast all directed proxies as directed; and
- any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed.

Further details on these changes are set out below.

Proxy vote if appointment specifies way to vote

Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, **if it does:**

- the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (ie as directed); and
- if the proxy has 2 or more appointments that specify different ways to vote on the resolution, the proxy must not vote on a show of hands; and
- if the proxy is the chair of the meeting at which the resolution is voted on, the proxy must vote on a poll, and must vote that way (ie as directed); and
- if the proxy is not the chair, the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (ie as directed).

Transfer of non-chair proxy to chair in certain circumstances

Section 250BC of the Corporations Act provides that, if:

- an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members; and
- the appointed proxy is not the chair of the meeting; and
- at the meeting, a poll is duly demanded on the resolution; and
- either of the following applies:
 - the proxy is not recorded as attending the meeting; or
 - the proxy does not vote on the resolution,

the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

DEFINED TERMS

Capitalised terms in this Notice of Meeting and Explanatory Statement are defined either in the "Glossary" Section or where the relevant term is first used.

RESPONSIBILITY

This Notice of Meeting and Explanatory Statement has been prepared by the Company under the direction and oversight of its Directors.

PROSPECTUS

The Corporations Act restricts the Company from disposing of the Tellus Shares to Shareholders within 12 months of their issue, by way of the proposed In Specie

Distribution, without the Company issuing a prospectus. In addition, the Corporations Act restricts the Shareholders from on-selling the Tellus Shares acquired by them as part of the In Specie Distribution, within 12 months after receiving them under the In Specie Distribution, without the Company issuing a prospectus in respect of the Tellus Shares transferred to Shareholders as part of the In Specie Distribution.

In addition, under applicable ASIC guidelines, the invitation to Shareholders to vote on Resolution 1 of the Notice of Meeting constitutes an "offer" to transfer Tellus Shares to Shareholder pursuant to an In Specie Distribution.

Therefore, under applicable ASIC guidelines, the Prospectus prepared by the Company accompanies this Notice of Meeting and Explanatory Statement.

The Prospectus is a short form prospectus issued in accordance with Section 712 of the Corporations Act. This means the Prospectus alone does not contain all the information that is generally required to satisfy the disclosure requirements of the Corporations Act. Rather, it incorporates all other necessary information by reference to information contained in this Notice of Meeting lodged with ASIC. The Prospectus is issued pursuant to Section 713 of the Corporations Act. That Section allows the issue of a more concise prospectus in relation to an offer of continuously quoted securities. The Prospectus, by incorporation to the information contain in this Notice, contains information in relation to Tellus. The Company recommends that all Shareholders read the Prospectus carefully and in conjunction with this Notice of Meeting and Explanatory Statement.

There is no information known to the Company that is material to the decision by a Shareholder on how to vote on Resolution 1 other than as disclosed in this Notice of Meeting and Explanatory Statement, the accompanying Prospectus and information that the Company has previously disclosed to Shareholders.

Shareholders should note that this Notice of Meeting and Explanatory Statement is not a prospectus lodged under Chapter 6D of the Corporations Act.

PURPOSE OF THIS DOCUMENT

The main purpose of this document is to explain the terms of the Transaction, the manner in which the Demerger and In Specie Distribution will be implemented (if approved) and to provide such information as is prescribed or otherwise material to the decision of Shareholders whether or not to approve Resolution 1 to give effect to the Demerger and In Specie Distribution. This document includes a statement of all the information known to the Company that is material to Shareholders in deciding how to vote on Resolution 1, as required by Section 256C(4) of the Corporations Act.

ASIC

A final copy of this Notice of Meeting and Explanatory Statement and the Prospectus which accompanies this Notice of Meeting and Explanatory Statement has been lodged with ASIC. ASIC nor any of their respective officers takes any responsibility for the contents of this document or the Prospectus.

FORWARD LOOKING STATEMENTS

Some of the statements appearing in this document may be in the nature of forward looking statements. The words 'anticipate', 'believe', 'expect', 'project', 'forecast', 'estimate', 'likely', 'intend', 'should', 'could', 'may', 'target', 'plan', 'consider', 'foresee', 'aim', 'will' and similar expressions are intended to identify forward-looking statements. Indications of guidance on, future production, resources, reserves, sales, capital expenditure, earnings and financial position and performance are also forward-looking

statements. You should be aware that such statements are only predictions and are subject to inherent risks and uncertainties, many of which are outside the Company's control.

Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement and such deviations are both normal and to be expected. None of the Company, Tellus nor any of their respective officers or any person named in this document or involved in the preparation of this document make any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement, and you are cautioned not to place undue reliance on those statements.

The forward looking statements in this document reflect views held only as at the date of this document.

NO FINANCIAL PRODUCT ADVICE

This document does not constitute financial product or investment advice nor a recommendation in respect of the Tellus Shares. It has been prepared without taking into account the objectives, financial situation or needs of Shareholders or other persons. Before deciding how to vote or act Shareholders and other should consider the appropriateness of the information having regard to their own objective, financial situation and needs and seek legal, taxation and financial advice appropriate to their jurisdiction and circumstances.

Neither the Company nor Tellus is licensed to provide financial product advice. No cooling-off regime applies in respect of the acquisition of Tellus Shares under the In Specie Distribution (whether the regime is provided for by law or otherwise).

NO INTERNET SITE IS PART OF THIS DOCUMENT

No internet site is part of this Notice of Meeting and Explanatory Statement. The Company maintains an internet site (www.caravelenergy.com.au). Any reference in this document to this internet site is a textual reference only and does not form part of this document.

BUSINESS OF THE MEETING

AGENDA

1. RESOLUTION 1 – APPROVAL FOR AN EQUAL REDUCTION OF CAPITAL

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an **ordinary resolution**:

“That, for the purposes of Section 256C of the Corporations Act 2001 and for all other purposes, approval is given for the net assets of the Company to be reduced by the Company making a pro rata in specie distribution of approximately 60,000,000 Tellus Shares to all holders of Shares on the Record Date on the basis of 1 Tellus Share for every 13.76 Shares held by Shareholders on the Record Date (rounded up to the nearest whole Tellus Share) on the terms and conditions set at in the Explanatory Statement”.

2. RESOLUTION 2 – CHANGE OF COMPANY NAME

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

“That, for the purposes of Section 157(1)(a) of the Corporations Act and for all other purposes, approval is given for the name of the Company to be changed to “Antares Mining Limited”.”

Dated: 11 August 2014

By order of the Board



Brian McMaster
Director

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions.

1. OVERVIEW OF DISPOSAL OF INTEREST IN PETROMAD AND IN SPECIE DISTRIBUTION

1.1 Background to the Transaction

The Company has a current 25% interest in Petromad (Mauritius) Limited (**Petromad**), which in turn holds 100% of the Bezaha Oil Project (Concession Block 3114) in the Morondava Oil Basin in southern Madagascar (**Project**).

Pursuant to an agreement with Dr Emma Rasolovoahangy (**Vendor**) (**Petromad Agreement**), the Company has the right to acquire up to 80% of Petromad by satisfying various funding obligations, as further described in Section 1.4 below.

On 11 June 2014, the Company announced that it had entered into a conditional sale and purchase agreement (**Sale Agreement**) with Tellus Resources Ltd (**Tellus**) pursuant to which the Company has agreed to sell and Tellus has agreed to purchase the Sale Assets (as that term is defined in Section 1.2 below) (**Transaction**).

Further details of the Sale Agreement are set out in Section 1.2 below.

1.2 Summary of the Sale Agreement

Rights to be acquired by Tellus

Pursuant to the Sale Agreement, the Company has agreed to sell and Tellus has agreed to acquire:

- (a) the Company's 25% shareholding interest in Petromad (being the company which owns a 100% interest in the Project);
- (b) all of the Company's rights and obligations under the Petromad Agreement entered into with the Vendor who owns the remaining 75% interest in Petromad (and under which the Company is entitled, subject to successful completion of staged work programs, to earn up to an 80% ownership interest in Petromad); and
- (c) the Company's right, title and interest in certain petroleum information relating to the Project,

(together, the **Sale Assets**).

Consideration

The consideration for the Sale Assets is the issue of 85,000,000 Tellus Shares, 60,000,000 of which are to be issued to the Company and the other 25,000,000 to certain unrelated nominated Company creditors. Additionally, Tellus will assume certain liabilities of the Company associated with Petromad.

Requirement for In Specie Distribution of Tellus Shares

Under the Sale Agreement, the Company is required, subject to obtaining any required Shareholder or regulatory approvals, to make an In Specie Distribution

of all of the 60,000,000 Tellus Shares to Shareholder as soon as reasonably practicable and, in any event, within 3 months of completion of the Sale Agreement.

If the Company does not make the In Specie Distribution within 3 months of completion of the Sale Agreement, then the Company is required to pay Tellus \$100,000 (without limiting the Company's obligation to make the In Specie Distribution).

Conditions to completion of the Sale Agreement

Completion under the Sale Agreement is conditional upon:

- (a) the Vendor consenting to the assignment of the Sale Assets to Tellus and executing a deed of assignment and assumption to effect the assignment of the Company's right, title and interest in the Petromad Agreement to, and the assumption of the Company's obligations under the Petromad Agreement by, Tellus;
- (b) each of Tellus and the Company obtaining all shareholder approvals required under its constitution, the ASX Listing Rules and/or the Corporations Act in order to enter into and complete the transactions contemplated by the Sale Agreement;
- (c) the debt conversion and release agreements required to extinguish the Company's creditor debts are executed by the relevant creditors (being Celtic Capital Pty Ltd and Parimont Global Limited) and Tellus respectively;
- (d) the Petromad Agreement being in force and effect as at completion of the Sale Agreement; and
- (e) each of the warranties given by the Company in favour of Tellus being true and correct as at completion of the Sale Agreement.

Conditions (a) and (c) referred to above has been satisfied.

Representations and warranties

The Sale Agreement contains representations and warranties given by the Company in favour of Tellus in relation to the status of the Project which are customary for an agreement of that nature.

1.3 Shareholder Approval for the Equal Reduction of Capital

Pursuant to Resolution 1, the Company is seeking Shareholder approval to make an equal reduction of capital by distributing the 60,000,000 Tellus Shares in-specie directly to individual Company Shareholders. Shareholders will continue to hold an indirect interest in Petromad and the Project by virtue of holding the 60,000,000 Tellus Shares to be issued to the Company and distributed to the Shareholders upon completion of the Sale Agreement.

1.4 The Project

Overview

Block 3114 is a 10,160km² onshore block in the Morondava Basin in the south-west of Madagascar. The main lead in Block 3114 is the Ambatry Lead, which

has independently assessed mean prospective oil resources of 236 million barrels (MMbbl) (RPS Energy technical report on the Ambatry lead dated 24 September 2010).

Petromad Agreement

In June 2012, the Company entered into the Petromad Agreement to acquire up to an 80% interest in Petromad, which owns the Project. Under the Petromad Agreement, the Company has the right to earn a staged interest in Petromad by sole funding expenditure to satisfy the various exploration stages of the Project as follows:

- (a) **(Initial interest – 25% interest in Petromad):** Under the terms of the Petromad Agreement, the Company acquired an initial interest in 25% of the fully paid ordinary share capital of Petromad in consideration for:
 - (i) a payment to the Vendor of US\$2,750,000 in cash;
 - (ii) the issue of 50,000,000 Shares; and
 - (iii) the payment of US\$200,000 to Petromad.

The Company also agreed to make a US\$850,000 cash payment for the purchase of additional data on the Project from a third party supplier;

- (b) **(Stage 1 exploration – acquisition of an additional 26% interest in Petromad):** During a stage 1 exploration program on Project, the Company is required to sole fund up to US\$5,000,000 on an initial exploration program prior to July 2015 which will include the acquisition of at least 200km of seismic data and the completion of three exploration wells. Following completion of the stage 1 exploration program, the Company will earn an additional 26% interest in Petromad;
- (c) **(Stage 2 exploration – acquisition of an additional 19% interest in Petromad):** During a stage 2 exploration program on the Project, the Company will sole fund up to US\$9,000,000 on a further exploration program which will include the completion of at least 2 exploration wells. Following completion of the stage 2 exploration program, the Company will earn an additional 19% interest in Petromad;
- (d) **(Confirmation of existence of hydrocarbon reserves – acquisition of an additional 10% interest in Petromad):** Subject to completion of the above work programs, if an independent expert determines the existence of hydrocarbon reserves of at least 100 MMbbl of oil then the Company will either (at the election of the Vendor):
 - (i) pay the Vendor US\$20,000,000; or
 - (ii) issue Shares to the Vendor valuing US\$20,000,000 (each Share will be issued at a deemed issue price equal to the average market price of 1 Share over the 5 days on which sales in the Shares are recorded on the ASX immediately after the Company receiving a report from the independent expert confirming this).

The Company will earn an additional 10% interest in Petromad by making the payment or issue described above on or before 5 April 2015.

If the Company elects not to continue to sole fund expenditure on the Project in accordance with the above or fails to spend the amount required within the specified timeframe, the Vendor may elect to buy back the Company's interest in Petromad by the repayment of the expenditure incurred by the Company as set above only. The Vendor may retain the initial consideration paid by the Company to earn a 25% interest in Petromad.

Status of the Company's activities on the Project

The main lead in Block 3114 is the Ambatry Lead, which has an independently assessed mean prospective oil resources of 236 MMbbl and it is the area on which the Company focused its exploration activities during the year.

Block 3114 has two further lead areas, namely, Bezaha and Tongobory, situated respectively in the North East and North West of Block 3114. The Company has not conducted additional exploration over these two areas during the year.

During the third quarter of 2012 the Company appointed and mobilized its seismic contractor, BGP Inc., China National Petroleum Corporation and MHA Petroleum Consultants, to undertake a new 2D seismic programme of 288 kilometres over the Ambatry lead to refine the structural interpretation over previously identified high-graded leads.

The acquisition of the first phase of seismic data commenced during the fourth quarter of 2012 and after a six week suspension due to the rainy season, the acquisition of the seismic data were completed in early 2013. During this phase the Company had completed 165km of its 2D seismic campaign on 5 new seismic lines.

The results of the phase 1 seismic programme were subsequently interpreted and integrated with the existing 2D seismic data set, the airborne and ground gravity and magnetic data, as well as previous well data. Detailed processing and analysis of the stage 1 seismic data has shown the Ambatry lead to be more faulted than originally anticipated, confirming several attractive trapping geometries (a structural anticline and several tilted fault blocks) and as a result, the Company has confirmed the location for the first exploration well.

The Company proceeded with its phase 2 seismic programme during the second quarter of 2013 and completed a further 126.5km of 2D seismic data acquisition on a further 5 new seismic lines. Upon interpretation of the remaining phase 2 seismic data, this information will be integrated with the existing 2D data set.

The completion of the phase 1 and 2 seismic programme will fulfil the Company's seismic farm-in obligations with Petromad and the relevant regulatory body, the National Mines and Strategic Industries Office.

As part of the seismic programme, the Company was required to complete an Environmental Impact Assessment (**EIA**). The Company has now completed the EIA and submitted the report to the National Office for the Environment in Madagascar (**ONE**).

The next and final stage of the EIA requires ONE to conduct an audit of the submission and the Company does not expect any matters to arise from this audit process.

1.5 Future of the Company after completion of the Sale Agreement

The Company intends to immediately shift its focus to an existing portfolio of highly prospective copper licences in the Olympic Dam copper province of South Australia (**Olympic Dam Licences**). The Company holds approximately 2,300km² of granted licences and a number of drill ready targets have been identified. Concurrent with the divestment of the Project, the Company intends to further develop the Olympic Dam copper targets.

The Directors will also continue to investigate other investment opportunities to enhance Shareholder value. The Company currently has a Board of Directors who between them have considerable investment and commercial expertise and are experienced in evaluating acquisition and investment opportunities.

1.6 Plans for the Company if the Transaction does not proceed

If the Transaction does not proceed, the Company will continue to explore and develop the Project but will need to either raise significant equity or debt or enter into a farm in or purchase agreement with another party to finance the continued development of the Project.

1.7 ASX Listing Rules - Chapter 11 submissions

Pursuant to ASX Listing Rule 11.2, if a company proposes a significant change which involves the entity disposing of its "main undertaking", the entity must obtain shareholder approval and must comply with any requirements of the ASX in relation to the notice of meeting.

The ASX has advised the Company that it is not required to seek Shareholder approval under ASX Listing Rule 11.2 as ASX Listing Rule 11.2 does not apply to the Transaction. The ASX also advised the Company that it does not require the Company to re-comply with Chapters 1 and 2 of the ASX Listing Rules pursuant to ASX Listing Rule 11.1.3.

Accordingly, Resolution 1 is sought to approve the Demerger and In Specie Distribution component of the Transaction and not the sale of the Sale Assets to Tellus.

2. RESOLUTION 1 – APPROVAL FOR AN EQUAL REDUCTION OF CAPITAL

2.1 Background and overview of the Demerger

As set out in Section 1.1 above, the Company has entered into the Sale Agreement pursuant to which the Company has agreed to sell, and Tellus has agreed to purchase, the Sale Assets.

Upon settlement of the Sale Agreement, Tellus shall issue to the Company 60,000,000 Tellus Shares (**Consideration Shares**) and 25,000,000 Tellus Shares to certain unrelated Company creditors. Subject to the passing of Resolution 1, the Company proposes to make a pro rata distribution of all of the Consideration Shares to its Shareholders pursuant to an equal reduction of capital (**Demerger**).

Based on the number of Shares currently on issue (being 825,839,108), each of the Company's Shareholders will receive approximately 1 Tellus Share for every 13.76 Shares held on the Record Date (rounded up to the nearest whole Share) (**Return Shares**).

The proposed Demerger will give the Company's Shareholders approximately a 23.31% equity interest (collectively) in Tellus (assuming Tellus does not issue any Tellus Shares other than as contemplated in this Notice).

2.2 Section 256C of the Corporations Act

The proposed reduction of capital by way of an In Specie Distribution to Shareholders is an equal capital reduction. Under Section 256C of the Corporations Act, this must be approved by an ordinary resolution passed at a general meeting of the Company.

Under Section 256B of the Corporations Act, the Company may only reduce its capital if it:

- (a) is fair and reasonable to Shareholders as a whole;
- (b) does not materially prejudice the Company's ability to pay its creditors; and
- (c) is approved by Shareholders in accordance with Section 256C of the Corporations Act.

The Directors believe that the capital reduction is fair and reasonable to Shareholders for the reasons set out throughout this Explanatory Statement and that the capital reduction will not prejudice the Company's ability to pay its creditors.

2.3 Effect of the proposed equal reduction of capital on the Company

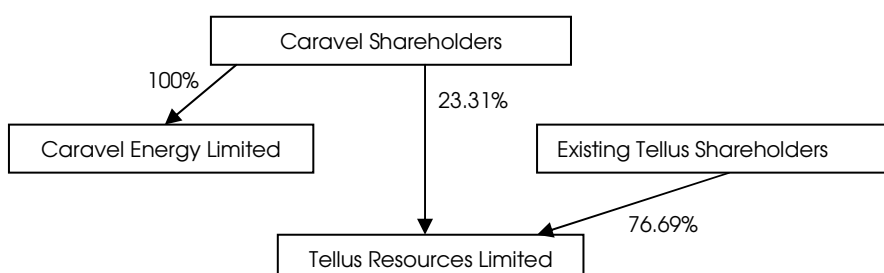
If the Demerger is approved, the net assets of the Company will be reduced by approximately \$3,300,000. This figure will vary slightly according to the final calculation of the pro rata distribution of Tellus Shares to the Company's Shareholders which is dependent on the number of Shares on issue as at the Record Date.

A pro forma balance sheet of the Company as at 30 June 2014 is contained in Schedule 1 which shows the financial impact of the capital reduction on the Company (assuming that no further Shares are issued).

2.4 Effect of the proposed equal reduction of capital on Shareholders

The effect of the proposed equal reduction is that Shareholders in the Company will receive a pro-rata distribution in specie of Tellus Shares of approximately 1 Tellus Share for every 13.76 Shares held in the Company on the Record Date, subject to the final calculation of the pro rata distribution of Tellus Shares to the Company's Shareholders (which will be determined on the number of Shares on issue in the Company at the Record Date).

Immediately after Resolution 1 is passed and the distribution of Tellus Shares is completed, the structure of the Company and Tellus will be as follows¹:



Note 1 – Assumes that no Tellus Shares are issued other than as contemplated by this Notice.

What will you receive?

If the Demerger is implemented, eligible Shareholders (being Shareholders whose address in the Company share register as shown on the Record Date is in Australia or New Zealand) will receive approximately 1 Tellus Share for every 13.76 Shares held in the Company on the Record Date (rounded up to the nearest whole Share).

The ratio of Tellus Shares distributed may be affected by the Company's Options being converted between now and the Record Date. This will have the effect of lowering the number of Tellus Shares distributed for each Share held in the Company.

Shareholders are not required to contribute any payment for the Tellus Shares which they are entitled to receive under the Demerger.

What is the impact on your shareholding in the Company?

The number of Shares in the Company that you hold will not change as a result of the Demerger.

If the Demerger is implemented, the value of your Shares in the Company will be less than the value of Company's Shares held prior to the Demerger because, after the Demerger, the Company will not retain an interest in the Project or Tellus. However, the size of the decrease cannot be predicted and will be dependent on the value the market ascribes to the Project.

Do you have to do anything to receive your Tellus Shares?

If the Demerger proceeds, you will automatically receive the Tellus Shares you are entitled to receive (unless you are an ineligible overseas Shareholder, in which case you will receive the proceeds), even if you vote against the Demerger or do not vote at all.

Will I be able to trade my Tellus Shares?

If the Demerger is approved by Shareholders and is implemented, a holder of Tellus Shares will be able to sell their Tellus Shares.

What are the taxation implications of the Demerger?

A general guide to the taxation implications of the Demerger is set out in Section 2.17 of this Notice. The description is expressed in general terms and is not intended to provide taxation advice in respect of particular circumstances of any Company Shareholder. Shareholders should obtain professional advice as to the taxation consequences of the Demerger in their specific circumstances.

2.5 Advantages of the Demerger

The Directors are of the view that the following non-exhaustive list of advantages may be relevant to a Shareholder's decision on how to vote on the proposed Resolution:

- (a) Shareholders will retain an indirect interest in the Project through their individual pro rata shareholdings in Tellus by virtue of holding the

60,000,000 Tellus Shares to be issued to the Company and distributed to the Shareholders upon completion of the Sale Agreement;

- (b) the Demerger presents an opportunity to realise the Company's interest in the Project at an acceptable price, retire the majority of the Company's debt and provides a certainty of return on the Project;
- (c) the Demerger is a means of relieving the creditor burden that has arisen from activities on the Project. The Company's debts to certain creditors will be satisfied on payment to those creditors of 25,000,000 Tellus Shares (in aggregate) as part of the consideration payable under the Sale Agreement;
- (d) Shareholders will retain their current percentage ownership interest in the capital of the Company; and
- (e) if the Company does not complete the Demerger, it may struggle to raise sufficient funds to satisfy the Company's obligations pursuant to the Petromad Agreement (as described in Section 1.4 above). If the Company fails to meet any of its obligations under the Petromad Agreement, the Vendor may elect to buy back the Company's interest in Petromad by the repayment of the expenditure incurred by the Company on the Project. The Company would not be entitled to a refund of the consideration paid for the acquisition of the initial 25% interest in Petromad.

2.6 Disadvantages of the Demerger

The Directors are of the view that the following non-exhaustive list of disadvantages may be relevant to a Shareholder's decision on how to vote on the proposed Resolution:

- (a) the Company will no longer hold a direct interest in Petromad or the Project;
- (b) there is a risk the Company may not be able to locate and acquire further suitable investment opportunities outside the Olympic Dam Licences;
- (c) there is no guarantee that the Tellus Shares will increase in value following the Demerger. It is possible that the collective value of the Shareholders' interests in the Company's Shares and Tellus Shares will decrease;
- (d) Shareholders may incur additional transaction cost if they wish to dispose of their Tellus Shares after the Demerger;
- (e) there are many risk factors associated with the Demerger. Some of these risks are set out in Section 2.14 of this Explanatory Statement; and
- (f) there may be taxation consequence in respect of the In Specie Distribution to Shareholders. Details of the general taxation effect of the transaction are set out in Section 2.17 of this Explanatory Statement.

2.7 Additional important information for Shareholders

In accordance with Section 256C of the Corporations Act and the ASX Listing Rules, the Company provides the following information to Shareholders:

- (a) the Demerger is conditional upon Shareholders approving the Demerger pursuant to Resolution 1;
- (b) the capital structure of the Company as at the date of this Notice is:

Number of Shares	Number of Options ¹
825,839,108 ²	20,000,000 ²

- ¹ Comprised of 20,000,000 unlisted Options exercisable at \$0.035 on or before 30 June 2015.
- ² The number of Shares and Options on issue at the Record Date will depend upon the number of Options exercised prior to the Record Date;

- (c) the capital structure of Tellus as at the date of this Notice is:

Number of Tellus Shares	Number of Tellus Options	Number of Tellus Performance Rights
172,348,295	72,666,666 ²	1,050,000 ³

The capital structure of Tellus after the issue of Tellus Shares pursuant to the Sale Agreement will be:

Number of Tellus Shares	Number of Tellus Options	Number of Tellus Performance Rights
257,348,295 ¹	72,666,666 ²	1,050,000 ³

- ¹ Subject to the completion of the Sale Agreement, Tellus will issue the following Tellus Shares prior to the Demerger:
- 60,000,000 Tellus Shares are to be issued to the Company pursuant to the Sale Agreement; and
 - 25,000,000 Tellus Shares are to be issued to unrelated creditors of the Company in satisfaction of all debts owed by the Company to those creditors.
- Refer to Section 1.2 above for further details.
- ² These Tellus Options include:
- 6,666,666 Tellus Options exercisable at \$0.10 on or before 31 December 2015
 - 2,000,000 Tellus Options exercisable at \$0.20 on or before 5 March 2018
 - 6,500,000 Tellus Options exercisable at \$0.20 on or before 17 September 2017
 - 7,500,000 Tellus Options exercisable at \$0.093 on or before 31 December 2016
 - 5,000,000 Tellus Options exercisable at \$0.25 on or before 25 September 2014
 - 5,000,000 Tellus Options exercisable if the 30 day VWAP reaches at least \$0.175 per Tellus Share
 - 5,000,000 Tellus Options exercisable if the 30 day VWAP reaches at least \$0.200 per Tellus Share
 - 5,000,000 Tellus Options exercisable if the 30 day VWAP reaches at least \$0.225 per Tellus Share
 - 15,000,000 Tellus Options exercisable when production testing of PEL 105 in either open or closed hole that can demonstrate an immediate flow capacity for the well in excess of a sustained minimum of 100 barrels of oil equivalent per day (**BOEPD**) for a period in excess of 7 days. Such test must be certified by a relevant expert in the field being either an independent

- consulting reservoir engineer or the contracted testing company, provided that such threshold is achieved on or prior to 31 December 2014
- j. 15,000,000 Tellus Options exercisable where Tellus has acquired a direct or indirect interest in the Wichita County Project and the production from the leases which form the Wichita County Project reaches an average of 50BOEPD over a three month period
- ³ These Tellus Performance Rights include:
- a. 300,000 Performance Rights, to convert if the 20 day VWAP for Tellus Shares reaches 25 cents per Tellus Share on or before 27 January 2017
 - b. 400,000 Performance Rights, to convert if the 20 day VWAP for Tellus Shares reaches 40 cents per Tellus Share on or before 27 January 2017
 - c. 350,000 Performance Rights, to vest if the Tellus Share price reaches 30 cents per Tellus Share and will lapse if not vested on 21 September 2015;
- (d) the **Record Date** will be 5.00pm WST on that date which is 6 Business Days after Shareholder approval is obtained;
- (e) the share capital of the Company as at the Record Date will be reduced by the dollar amount of the book value of the Return Shares (**Reduction Amount**);
- (f) the **Return Shares** will be that number of Tellus Shares to be distributed on a pro-rata basis to all holders of ordinary shares in the capital of the Company on the Record Date by applying the formula of 1 Tellus Share for every 13.76 Shares held on the Record Date (rounded up to the nearest whole number); and
- (g) the **Return of Capital** will be effected by a pro-rata distribution of the Return Shares in specie proportionately to all of the Company's Shareholders:
- (i) registered as such as at 5.00pm WST on the Record Date; or
 - (ii) entitled to be registered as a Shareholder in the Company by virtue of a transfer of Shares executed before 5.00pm WST on the Record Date and lodged with the Company at that time.

2.8 Overseas Shareholders

The distribution of Tellus Shares to the Company's Shareholders pursuant to the Demerger will be subject to the legal and regulatory requirements in their relevant jurisdictions.

If, in the opinion of the Directors, the requirements of any jurisdiction where a Shareholder is resident restricts or prohibits the In Specie Distribution to that Shareholder or would impose on the Company an obligation to prepare a prospectus or other similar disclosure document or otherwise impose on the Company an undue burden, the Tellus Shares to which the relevant Shareholders are entitled will be sold by the Company on behalf of those Shareholders as soon as practicable after the Record Date.

The Company will then account to the relevant Shareholders for the net proceeds of sale after deducting the costs and expenses of the sale.

As the Return of Capital is being represented and satisfied by the distribution to Shareholders of Tellus Shares and, given that security prices may vary from time to time (assuming a liquid market is available), the net proceeds of sale to such Shareholders may be more or less than the notional dollar value of the Return of Capital as set out in this Explanatory Statement.

2.9 Directors' interests

Set out below is a table which indicates the securities held by the Directors prior to the Demerger and the number of Tellus Shares they are likely to receive if Resolution 1 is passed:

Director	Company Shares	Company Options	Number of Tellus Shares each Director is likely to receive if Resolution 1 is passed
Brian McMaster	7,511,809	5,000,000	545,916
Matthew Wood	77,972,355	5,000,000	5,666,595
Emma Rasolovoahangy	50,000,000	-	3,633,721

The table below sets out the remuneration provided to the Directors of the Company and their associated companies during the last financial year prior to the date of this Notice of Meeting and their current remuneration at the date of this Notice of Meeting, inclusive of superannuation, directors' fees and consultancy fees.

Director	Current Financial Year	Previous Financial Year
Brian McMaster	\$60,000	\$84,000
Matthew Wood	\$50,000	\$80,000
Emma Rasolovoahangy	\$191,215	\$188,967

2.10 Directors' recommendations

Messrs McMaster and Wood consider that:

- (a) the terms of the Sale Agreement are fair and reasonable insofar as the Shareholders are concerned and the consideration to be received for the Sale Assets is reasonable; and
- (b) Resolution 1 is fair and reasonable insofar as the Shareholders are concerned and that the Demerger the subject of Resolution 1 will not prejudice the Company's ability to pay its creditors.

After considering all relevant factors, the Directors (other than Dr Rasolovoahangy) recommend the Company's Shareholders vote in favour of Resolution 1 for the following reasons:

- (c) after a full and proper assessment of all available information they believe that the Demerger the subject of Resolution 1 is in the best interests of Shareholders; and
- (d) in the opinion of the Directors, the benefits of the Demerger outweigh its disadvantages as referred to in Sections 2.5 and 2.6.

Dr Rasolovoahangy has declined to make a recommendation on Resolution 1 due to her material personal interest in the subject matter of the Resolution (refer to Section 1.1 of the Explanatory Statement).

Shareholders will be informed if the Directors withdraw their recommendation prior to the Meeting.

2.11 Information on Tellus

Overview

Tellus Resources Ltd (ASX:TLU) is an ASX-listed oil and gas exploration company that generates value for its shareholders by identifying and acquiring properties and projects that have significant discovery and development potential.

A key part of Tellus' strategy is to explore and develop its oil and gas assets and maximise the value of its existing gold assets.

Further information regarding Tellus' projects is set out below.

Projects

(a) **Covenant Mondo Project, Utah, USA**

Tellus has signed a participation agreement whereby it has the right to acquire an up to 83% interest in the Covenant Mondo Project (**CMP**). CMP is located in the Covenant Field in the Sevier County Utah, USA.

Tellus currently has a 50% interest in CMP during the farm-in phase (two wells) reducing to 41.67% participation interest following farm-in. This will equate to a net revenue interest of approximately 31%.

CMP consists of two leases with a total area of approximately 3,900 acres held over private lands. The leases are located on the well known "hingeline" overthrust structure in the Rocky Mountains which trends in a North Easterly direction from Arizona in the South right up into Canada. The overthrust belt has hosted a number of major oil discoveries including the massive Anschutz Ranch East field discovered by Amoco in 1979 as well as the recent (2004) discovery of the Covenant field located some 4 km immediately to the South West of CMP.

TWP and the farm-out party for the CMP, TransWestern Petroleum (**TWP**), have agreed that TWP will operate the drilling of the first two wells. Tellus' Managing Director will act as one of the on-site company men for the drilling of the first well.

Based on a recent announcement by Tellus, the blasting work for the drilling pad for the CMP's first well is now complete and the location should be gravelled and ready to accept a drilling unit in 2 – 3 weeks. The operator has advised that the regulatory authority to drill will now be lodged and approval from the Utah regulators expected some 30 days later. Given these developments, the operator has advised spud is now expected in late third quarter.

The Company has agreed with the Operator to reduce its participating interest in the CMP from 41.67% to 25% - which means it is now required to pay 30% rather than 50% of the cost of the two well farm-in to the

Project. Tellus' share of estimated costs have been advanced to the Operator for the first well and construction of the second well pad.

(b) **Cooper Basin, South Australia**

Tellus holds a 50% interest in PEL 105 in the highly prospective Cooper Basin in South Australia, with the other 50% interest being held by Senex Energy Ltd (**Senex**) (ASX:SXY).

The Pirie Prospect, the first well drilled on PEL 105, was cased and suspended as a result of hole and mechanical problems. Pirie has large "wet gas" potential, tight oil as well as deep coal prospectivity. It is surrounded by producing oil and gas wells and pipelines and remains a highly prospective area to be investigated again in the future.

Senex has a contractual obligation to drill a second well on PEL 105 before 30 June 2014. The well will be drilled totally at Senex's expense. Tellus' 50% interest will reduce to 30% and Senex's interest will increase to 70% when Senex drills the further well.

(c) **Chillagoe Gold Project, Queensland**

Tellus has a 100% interest in the Chillagoe Gold Project in North Queensland. The tenement area shows similar mineralisation characteristics to the nearby multi-million ounce Red Dome-Mungana, Kidston and Pajingo projects. With likely provenance as an intrusion-related gold deposit, the region is also highly prospective for silver and base metals.

The Chillagoe Gold Project includes exploration permits covering a combined area of some 28,878 hectares plus mining leases covering a combined area of approximately 480 hectares, including the Wandoo and Empire prospects.

(d) **Exploration tenements, regional New South Wales**

In regional New South Wales, the Company also holds exploration leases prospective for Intrusive Related Gold Deposits.

A number of these tenements encompass historic goldfields that have received relatively little in the way of modern exploration.

The Upper Hunter Goldfield has 65 known hard rock historic workings oriented north-south extending over 20 kilometres, operated in the late 1800's. EL7874 (250km²) covers the whole of the Upper Hunter Goldfield and surrounds.

2.12 Board of Tellus

The board of Tellus will comprise of the following (after completion of the Demerger):

Carl Dorsch – Managing Director

Carl Dorsch is a Chartered Chemical Engineer with a 35 year career in hardrock, oil and gas exploration and development projects in Australia and internationally. He was appointed Managing Director of Tellus on 23 August 2013.

Carl served as Managing Director of Adelaide Energy Limited from its ASX listing in July 2007 until its takeover in January 2012, and he was Managing Director of Strzelecki Metals Limited (formerly, Primary Resources Limited) from November 2005 to February 2007.

Robert (Bob) Kennedy – Non-Executive Chairman

Bob Kennedy has extensive experience in oil and gas companies, most notably as the previous Director and Chairman of Beach Energy Ltd, for a period of almost 21 years. He is also closely involved at board level with a number of other publicly listed companies and his experience in this field is both well known and extensive.

Neil Young – Non-Executive Director

Neil Young has nearly 20 years' commercial experience in the energy sector, after an initial career as an accountant in the UK.

Neil has worked for and been a board member of a number of oil and gas exploration companies, ranging from Santos Ltd to Adelaide Energy Ltd, both in Australia and internationally.

Ben Salmon – Non-Executive Director

Ben Salmon was appointed as a director on 19 October 2012. He has practised as a barrister in Canberra since 1967 was appointed Queens Counsel in 1985.

He represents Asia Pacific Mining Capital Pte Ltd, a cornerstone investor following the capital raising for the Chillagoe Gold Project in 2012.

2.13 Information concerning Tellus Shares

The following is a summary of the more significant rights and liabilities attaching to the Tellus Shares to be distributed pursuant to Resolution 1. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Tellus Shareholders.

Full details of the rights and liabilities attaching to Tellus Shares are set out in Tellus' constitution, a copy of which is available upon request.

The rights, privileges and restrictions attaching to Tellus Shares can be summarised as follows:

(a) Meetings and Notices

Each Tellus Shareholder is entitled to receive notices of meetings. The failure of a Tellus Shareholder to receive a notice of meeting does not invalidate the proceedings, or any resolution passed at, any such meeting. No business may be transacted at any meeting of Tellus Shareholders unless a quorum of Tellus Shareholders is present. Tellus Shareholders may attend a general meeting at which the Tellus Shareholder is entitled to be present in person, by proxy, by attorney or, in the case of a Tellus Shareholder which is a body corporate, by a corporate representative.

(b) Voting Rights

Subject to any rights or restrictions for the time being attached to any class or classes of Tellus Shares whether by the terms of their issue, the Tellus Constitution, the Corporations Act or the ASX Listing Rules, at a general meeting of Tellus every Tellus Shareholder present in person or by a representative or attorney has one vote on a show of hands and every such Tellus Shareholder present in person or by a representative, proxy or attorney has one vote per fully paid Tellus Share on a poll.

Where there are two or more joint holders of the Tellus Shares and more than one of them is present at a meeting and tenders a vote in respect of the Tellus Share (whether in person or by proxy or attorney), Tellus will count only the vote cast by the member whose name appears before the other(s) in Tellus' register of Tellus Shareholders.

(c) **Dividend Rights**

Subject to any rights or restrictions attaching to a class of shares, Tellus may pay dividends as the Directors resolve. The Directors may fix the time for payment and the method of distribution.

(d) **Transfer of Tellus Shares**

Subject to the Tellus Constitution, a member may transfer one or more Tellus Shares they hold by:

- (i) a proper ASTC transfer;
- (ii) an instrument of transfer in compliance with the Tellus Constitution; or
- (iii) any other method permitted by the Corporations Act, the ASX Listing Rules or the ASX Settlement Operating Rules.

Tellus may decline to register a transfer of Tellus Shares were permitted to do so under the provisions of the Tellus Constitution, the Corporations Act and the ASX Listing Rules. If the Directors decline to register a transfer, Tellus must, within 5 Business Days after the transfer is delivered to Tellus, give the party lodging the transfer written notice of the refusal and the reason for refusal. The Directors must decline to register a transfer of shares when required by the Corporations Act, by the ASX Listing Rules or by the ASX Settlement Operating Rules.

(e) **Future Issues**

Subject to the Tellus Constitution, the applicable law and the ASX Listing Rules, the Directors may allot, issue or grant options over, or otherwise deal with the unissued shares in Tellus at the times and on the terms and conditions that the Directors think proper and a share may be issued with preferential, deferred, qualified or special rights, privileges or conditions or restrictions.

(f) **Alteration of Tellus Constitution**

The Tellus Constitution can only be amended by a special resolution (that is, a resolution that has been passed by at least three-quarters of the votes cast by shareholders entitled to vote on the resolution). While Tellus is listed, at least 28 days written notice of the special resolution must be given.

(g) **Variation of Rights**

Tellus may only modify or vary the rights attaching to any Tellus Shares with the prior approval by a special resolution passed at a separate meeting of the holders of shares of that class or with the written consent of the holders of at least three-quarters of the issued Tellus Shares of the affected class.

(h) **Directors**

The minimum number of Directors is three and the maximum is ten. Currently there are four Directors. Directors must retire on rotational basis so that one-third of Directors must retire at each annual general meeting. Any other Director who has been in office for three or more years must also retire. The Directors may appoint a director either in addition to existing Directors or to fill a casual vacancy, who then holds office until the next annual general meeting.

(i) **Officers' Indemnity**

To the extent permitted by the law, Tellus must indemnify each officer (including a Director, auditor and agent of Tellus) against any liability which that officer may incur by reason of being an officer or in carrying out the business or exercising the powers of Tellus.

2.14 **Risk factors**

On successful completion of the Demerger, the Company's Shareholders will become direct shareholders in Tellus and should be aware of the general and specific risk factors which may affect Tellus and the value of its securities. These risk factors are outlined below.

The risk factors have been reviewed by each of the boards of directors of the Company and Tellus and are considered applicable.

Exploration and Development

The tenements held by Tellus have had limited prior exploration, and potential investors should understand that oil and gas exploration and development and mineral exploration and development are high-risk undertakings.

There can be no assurance that exploration of the tenements, or any other licences that may be acquired in the future will result in the discovery of an economic deposit. Even if an apparently viable deposit is identified, there is no guarantee that it can be economically exploited.

Regulatory Risk

Tellus' exploration and development activities are subject to extensive laws and regulations relating to numerous matters including resource licence consent, conditions including environmental compliance and rehabilitation, taxation, employee relations, health and worker safety, waste disposal, protection of the environment, native title and heritage matters, protection of endangered and protected species and other matters. Tellus requires permits from regulatory authorities to authorise Tellus' operations. These permits relate to exploration, development, production and rehabilitation activities. Obtaining necessary permits can be a time consuming process and there is a risk that Tellus will not obtain these permits on acceptable terms, in a timely manner or at all. The costs

and delays associated with obtaining necessary permits and complying with these permits and applicable laws and regulations could materially delay or restrict Tellus from proceeding with the development of a project or the operation or development of a well or mine.

Any failure to comply with applicable laws and regulations or permits, even if inadvertent, could result in material fines, penalties or other liabilities. In extreme cases, failure could result in suspension of Tellus' activities or forfeiture of one or more of the tenements.

Failure to Satisfy Expenditure Commitments

Interests in tenements in Australia are governed by the respective State legislation and are evidenced by the granting of licences or permits. Each licence or permit is for a specific term and carries with it annual expenditure and reporting commitments, as well as other conditions requiring compliance. Consequently, Tellus could lose title to or its interest in the tenements if licence conditions are not met or if insufficient funds are available to meet expenditure commitments.

Additional Requirements for Capital

Tellus' capital requirements depend on numerous factors. Depending on the Company's ability to generate income from its operations, Tellus may require further financing. Any additional equity financing will dilute shareholdings, and debt financing, if available, may involve restrictions on financing and operating activities. If Tellus is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations and scale back its exploration programmes as the case may be. There is however no guarantee that Tellus will be able to secure any additional funding or be able to secure funding on terms favourable to Tellus. Failure to obtain sufficient financing for its activities and future projects may result in delay and indefinite postponement of exploration or development of the projects, or even loss of a property interest. There can be no assurance that additional finance will be available when needed.

Loan agreements and other financing rearrangements such as debt facilities, convertible note issues and finance leases (and any related guarantee and security) that may be entered into by Tellus may contain covenants, undertakings and other provisions which, if breached, may entitle lenders to accelerate repayment of loans and there is no assurance that Tellus would be able to repay such loans in the event of an acceleration. Enforcement of any security granted by Tellus or default under a finance lease could also result in the loss of assets.

Oil and Gas Operations

The operations of Tellus going forward may be affected by various factors, including failure to locate or identify oil and gas reserves at PEL 105, Block 3114 in Madagascar and Covenant Mondo Project, Utah, USA, failure to achieve predicted well production flow rates, operational and technical difficulties encountered in production, difficulties in commissioning and operating plant and equipment, mechanical failure or plant breakdown, unanticipated reservoir problems which may affect field production performance, adverse weather conditions, industrial and environmental accidents, industrial disputes and unexpected shortages or increases in the costs of consumables, spare parts, plant and equipment. No assurances can be given that Tellus will achieve commercial viability through the successful exploration and/or production of its prospect interests.

Risks relating to operating in Madagascar include economic, social or political instability or change, security concerns, hyperinflation, currency non-convertibility or instability and changes of law effecting foreign ownership, government participation, taxation, working conditions, rates of exchange, exchange control, exploration licensing, export duties as well as government control over oil and gas an mineral properties.

Oil and Gas Reserves and Commercial Flow

Oil and gas reserves are expressions of judgment based on knowledge, experience and industry practice. Estimates, which were valid when originally calculated, may change significantly when new information or techniques becomes available. In addition, by their nature, oil and gas reserves are imprecise and depend to some extent on interpretations which may prove to be inaccurate. As further information becomes available through additional fieldwork and analysis, the estimates are likely to change. This may result in alterations to development and commercial flow plans which may, in turn, either benefit or adversely affect Tellus' operations.

Oil and Gas Price Volatility and Exchange Rate

If Tellus achieves success leading to oil and gas production, the revenue it will derive through the sale of oil and gas exposes the potential income of Tellus to oil and gas price and exchange rate risks. Oil and gas prices fluctuate and are affected by many factors beyond the control of Tellus. Such factors include supply and demand fluctuations, technological advancements, forward selling activities and other macro-economic factors.

Furthermore, international prices of oil and gas are denominated in United States dollars, whereas the income and expenditure of Tellus are and will be taken into account in Australian currency, exposing Tellus to the fluctuations and volatility of the rate of exchange between the United States dollar and the Australian dollar as determined in international markets.

Contracts Risk

As part of Tellus' commercial activities, Tellus will be a party to, and enter into, various contracts with third parties for the supply of products and services, sales contracts and financial instruments, amongst other things. If counterparties to contracts with the Company or PNC fail to meet their commitments under such contracts, it may have an impact on Tellus' financial position.

Environmental

The operations and proposed activities of Tellus are subject to laws and regulations concerning the environment applicable in the jurisdiction of those activities. As with most production operations, Tellus' activities are expected to have an impact on the environment, particularly if advanced exploration or production proceeds. It is Tellus' practice to conduct its activities to the highest standard of environmental obligation, including compliance with all environmental laws. Nevertheless, there are certain risks inherent in Tellus' activities such as accidental leakages or spills, or other unforeseen circumstances which could subject Tellus to extensive liability.

Competition Risk

The industry in which Tellus will be involved is subject to domestic and global competition. Although Tellus will undertake all reasonable due diligence in its

business decisions and operations, Tellus will have no influence or control over the activities or actions of its competitors, which activities or actions may, positively or negatively, affect the operating and financial performance of Tellus' projects and business.

Investment Speculative

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in Tellus. The above factors, and others not specifically referred to above may, in the future, materially affect the financial performance of Tellus and the value of Tellus' securities.

Economic Risks

There is a risk that the price of Tellus Shares and returns to shareholders may be affected by changes in:

- (a) local and world economic conditions;
- (b) interest rates;
- (c) levels of tax, taxation law and accounting practice;
- (d) government legislation or intervention; and
- (e) inflation or inflationary expectations.

Reliance on Key Personnel

The loss of any one or more of the directors could have adverse impact on the performance and prospects of Tellus.

2.15 Information on the Company post completion of the Demerger

On completion of the Demerger, the focus of the Company will be as set out in Section 1.5 above.

2.16 Information concerning the Company's Shares

The rights attaching to the Company's Shares will not alter.

The Company's securities have been in voluntary suspension since 19 April 2013, pending the negotiation by the Company of financing arrangements for the Project. The last recorded sale price of Shares in the Company as traded on ASX prior to the suspension was 1.5 cents.

2.17 Taxation

The Australian tax consequences pertaining to Shares in the Company and associated with the Return of Capital (and the Demerger in general), may in general terms be summarised as follows:

Introduction and scope

This Section outlines the likely Australian income tax implications for certain Shareholders of the transfer by the Company to them of Tellus Shares as a consequence of the Demerger.

The information outlined in this Section is limited solely to the Australian income tax implications of the Demerger for Australian residents who hold their Shares on capital account. This Section does not provide information relevant to:

- (a) Shareholders who hold their Shares on revenue account (for example, Shareholders who are share traders and certain institutional investors);
- (b) Shareholders whose Shares are subject to the employee share acquisition scheme tax rules and Shareholders who are not the beneficial owners of their Shares in the Company;
- (c) Shareholders who are not residents of Australia for income tax purposes; and
- (d) Shareholders who acquired their Shares prior to 20 September 1985.

The information outlined in this Section is based on the income tax law at the date of this Explanatory Memorandum. Any changes in the tax law or interpretation of the tax law subsequent to the date of this Explanatory Memorandum may alter the information contained therein.

This information is not intended to provide an exhaustive or definitive statement as to all the possible tax outcomes for Shareholders. Accordingly the income tax implications for a particular Shareholder may differ from those detailed in this Section, depending on their individual circumstances. Shareholders should not rely on the information outlined in this Section as it is only general in nature. The views expressed in this Section are not intended as specific advice to Shareholders. The application of tax legislation may vary according to the individual circumstances of Shareholders.

It is recommended that all Shareholders should, in considering the implications to them of the Demerger, obtain independent tax advice regarding the income tax implications specific to their circumstances.

Summary of the Transactions

Shareholders are being asked to approve the Demerger the subject of Resolution 1. Under the Demerger, Eligible Shareholders will:

- (e) keep their existing Shares; and
- (f) receive 1 Tellus Share for every 13.76 Shares held on the Record Date (rounded up to the nearest whole Share).

The Demerger will be implemented by way of a demerger distribution (the **Demerger Entitlement**). This may consist of a return of share capital component (the **Capital Reduction Entitlement**) and possibly a dividend component (the **Demerger Dividend Entitlement**). The amount of the Demerger Entitlement of each Shareholder will be applied by the Company as the consideration for the transfer of the Tellus Shares on the basis of 1 Tellus Share for every 13.76 Shares held on the Record Date (rounded up to the nearest whole Share).

Demerger tax relief

The Company considers that it is possible that the Demerger could satisfy the requirements for demerger tax relief under Division 125 of the *Income Tax Assessment Act 1997* (Cth) (**Income Tax Assessment Act**). However, the Company has not confirmed that the Demerger satisfies the requirements for

demerger tax relief under Division 125 of the Income Tax Assessment Act. The Company therefore makes the following comments on the possible Australian income tax implications of the Demerger.

The Company does not intend to apply for a class ruling from the Australian Taxation Office (**ATO**) on the Demerger.

Demerger tax relief is available

The following is an overview of the Australian income tax implications that should arise as a consequence of the Demerger for an Australian resident Shareholder who holds Shares on capital account if the Demerger satisfies the requirements for demerger tax relief under Division 125 of the Income Tax Assessment Act.

Capital Gain/Loss	<p>A capital gain will arise for a Shareholder as a result of the return of capital under the Demerger to the extent that the Capital Reduction Entitlement for a Share exceeds the capital gains tax (CGT) cost base of that share. A capital loss will not arise.</p> <p>If demerger tax relief is available for the Demerger, then in these circumstances, if a Shareholder chooses to obtain capital gains tax rollover relief for the Demerger, then any capital gain discussed above will be disregarded. This means no income tax should be payable on any capital gain that might otherwise arise under the Demerger if this choice is made.</p>
CGT Cost Base	<p>If demerger tax relief is available for the Demerger, then in these circumstances, the CGT cost base and reduced cost base of a Share will be apportioned between the Company's Share and the share received in Tellus on the basis of the relative market value of the Company's Share and the Tellus Share immediately after the Demerger happens.</p>
Dividend	<p>If demerger tax relief is available for the Demerger, then in these circumstances, no part of the Demerger Entitlement arising under the Demerger (including the Demerger Dividend Entitlement) should be an assessable dividend to Shareholders.</p>

As stated above, the Company considers the Demerger may satisfy the requirements for demerger tax relief. However, the Company has not confirmed that the Demerger satisfies the requirements for demerger tax relief under Division 125 of the Income Tax Assessment Act.

The income tax legislation includes a provision for the ATO to determine that some or all of the Demerger Entitlement is a dividend for income tax purposes. This determination can be made if the ATO resolve the circumstances relating to the Demerger are such that the Dividend Entitlement is paid to a Shareholder in whole or part in substitution for a taxable dividend. This is despite the Demerger otherwise satisfying the requirements for demerger tax relief.

Demerger tax relief is not available

The following is an overview of the Australian income tax implications that should arise as a consequence of the Demerger for an Australian resident Shareholder who holds Shares on capital account if the Demerger does not satisfy the requirements for demerger tax relief under Division 125 of the Income Tax Assessment Act.

Capital Gain/Loss	A capital gain will arise for a Shareholder as a result of the return of capital under the Demerger to the extent that the Capital Reduction Entitlement for a Share exceeds the CGT cost base of that share. A capital loss will not arise. Australian resident Shareholders would not be entitled to choose demerger tax relief and any capital gain arising to a Shareholder would be included in their assessable income.
CGT Cost Base	The CGT cost base and reduced cost base of a Share would be reduced (but not below nil) by the Capital Reduction Entitlement. The CGT cost base of the Tellus shares would be equal to the Demerger Entitlement.
Dividend	The Demerger Dividend Entitlement would be an assessable dividend to Shareholders.

2.18 Lodgement with the Australian Securities and Investments Commission

The Company has lodged with the ASIC a copy of this Notice and the Explanatory Statement in accordance with Section 256C(5) of the Corporations Act. The Company has also lodged a copy of the Prospectus which accompanies this Notice with ASIC at the same time the Notice was lodged with ASIC.

The ASIC and its officers take no responsibility for the contents of this Notice or the merits of the Transaction to which this Notice relates.

If Resolution 1 is passed, the Demerger will take effect in accordance with the timetable set out in Appendix 7A of the ASX Listing Rules.

2.19 Disclosure to ASX

The Company, as a company whose Shares are quoted on the stock market of ASX, is a disclosing entity and, as such, is subject to regular reporting and disclosure obligations. Copies of documents lodged in relation to the Company may be obtained for a fee from, or inspected at, an office of the ASIC.

2.20 Stamp duty

The Company's Shareholders will not bear any stamp duty on the transfer of Tellus Shares to them pursuant to the Demerger.

2.21 Other material information

There is no information material to the making of a decision by a Shareholder in the Company whether or not to approve Resolution 1 (being information that is known to any of the Directors and which has not been previously disclosed to shareholders in the Company) other than as disclosed in this Explanatory Statement (including Schedule 1), the accompanying Prospectus and information the Company has previously disclosed to Shareholders.

2.22 Other legal requirements

The Corporations Act restricts:

- (a) the Company from disposing of the Tellus Shares to its Shareholders by way of an in-specie distribution, without issuing a prospectus; and

- (b) the Company's Shareholders from on-selling their Tellus Shares within the first 12 months after receiving them under an in-specie distribution.

Under applicable ASIC guidelines, the In Specie Distribution of Tellus Shares to Shareholders proposed in this Notice of Meeting constitutes an "offer" of securities under Australian law. Accordingly, the Company has prepared a short form prospectus which contains information in relation to Tellus (**Prospectus**).

The Prospectus accompanies this Notice of Meeting and has been lodged with ASIC at the same time as this Notice of Meeting. The Company recommends that all Shareholders read the Prospectus carefully and in conjunction with this Notice of Meeting.

The effect of providing Shareholders with the Prospectus is that:

- (a) the Company is able to dispose of some or all of its shareholding in Tellus by way of an in-specie distribution to its Shareholders; and
- (b) if the in-specie distribution occurs, the Company's Shareholders will not be restricted from selling their Tellus Shares within the first 12 months after receiving them.

3. RESOLUTION 2 – CHANGE OF COMPANY NAME

Section 157(1)(a) of the Corporations Act provides that a company may change its name if the company passes a special resolution adopting a new name.

Resolution 2 seeks the approval of Shareholders for the Company to change its name to Antares Mining Limited.

If Resolution 2 is passed the change of name will take effect when ASIC alters the details of the Company's registration.

The proposed name has been reserved by the Company and if Resolution 2 is passed, the Company will lodge a copy of the special resolution with ASIC following the Meeting in order to effect the change.

GLOSSARY

\$ means Australian dollars.

ASIC means the Australian Securities & Investments Commission.

ASX means ASX Limited (ACN 008 624 691) or the financial market operated by ASX Limited, as the context requires.

ASX Listing Rules means the Listing Rules of ASX.

Board means the current board of directors of the Company.

Business Day means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day, and any other day that ASX declares is not a business day.

Chair means the chair of the Meeting.

Company means Caravel Energy Limited (ACN 119 047 693).

Constitution means the Company's constitution.

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

Demerger means the demerger of the Project as contemplated by Resolution 1 and summarised in Section 2.1 of the Explanatory Statement.

Directors means the current directors of the Company.

Existing Tellus Shareholder means a Tellus Shareholder as at the date of this Notice.

Explanatory Statement means the explanatory statement accompanying the Notice.

General Meeting or **Meeting** means the meeting convened by the Notice.

In Specie Distribution means, as part of the Transaction, the capital reduction by way of in specie distribution of Tellus Shares to Shareholders for which approval is being sought pursuant to Resolution 1.

Notice or **Notice of Meeting** means this notice of meeting including the Explanatory Statement and the Proxy Form.

Option or **Company Option** means an option to acquire a Share.

Optionholder means a holder of an Option.

Petromad means Petromad Mauritius Limited, a company incorporated in Mauritius.

Project means the Bezaha Oil Project (Concession Block 3114) in the Morondava Oil Basin in southern Madagascar owned by Petromad.

Prospectus means the short form prospectus issued by the Company in relation to the Tellus Shares proposed to be distributed in specie to the Shareholders under the Transaction dated the same date as, and accompanying this Notice of Meeting and Explanatory Statement.

Proxy Form means the proxy form accompanying the Notice.

Record Date means 5.00pm WST on that date which is 6 Business Days after Shareholder approval is obtained for Resolution 1 to this Notice.

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

Return of Capital has the same meaning given to that term in Section 2.7(g) of this Notice.

Return Shares has the same meaning given to that term in Section 2.7(f) of this Notice.

Sale Agreement means the conditional agreement with Tellus pursuant to which the Company has agreed to sell and Tellus has agreed to purchase the Sale Assets.

Sale Assets has the same meaning given to that term in Section 1.2 of this Notice.

Share or **Company Share** means a fully paid ordinary share in the capital of the Company.

Shareholder means a registered holder of a Share.

Tellus means Tellus Resources Ltd (ACN 144 733 595).

Tellus Option means an option to acquire a Tellus Share.

Tellus Performance Right means a right to acquire a Tellus Share.

Tellus Share means a fully paid ordinary share in the capital of Tellus.

Tellus Shareholder means a holder of a Tellus Share.

Transaction means the transaction contemplated by the Sale Agreement and as otherwise described in Section 1.1 of this Notice.

Vendor means Dr Emma Rasolovoahangy.

WST means Western Standard Time as observed in Perth, Western Australia.

SCHEDULE 1 – PRO FORMA BALANCE SHEET

	UNAUDITED as at 30 June 2014	PROFORMA as at 30 June 2014
CURRENT ASSETS		
Cash and cash equivalents	16,791	16,791
Other current assets	5,798	5,798
TOTAL CURRENT ASSETS	22,589	22,589
NON-CURRENT ASSETS		
Investments ¹	3,766,542	-
TOTAL NON-CURRENT ASSETS	3,766,542	-
TOTAL ASSETS	3,789,131	22,589
CURRENT LIABILITIES		
Creditors and borrowings ²	997,764	101,874
Interest bearing liabilities ³	1,500,000	-
TOTAL CURRENT LIABILITIES	2,497,764	101,874
NON CURRENT LIABILITIES		
Creditors ⁴	736,829	736,829
TOTAL NON CURRENT LIABILITIES	736,829	736,829
TOTAL LIABILITIES	3,234,593	838,703
NET ASSETS (LIABILITIES)	554,538	(816,114)
EQUITY		
Contributed equity	20,994,255	20,994,255
Reserves	2,395,582	2,395,582
Retained losses ⁵	(22,835,299)	(24,205,951)
TOTAL EQUITY	554,538	(816,114)

Notes:**1. Investments**

Movement in investments:	\$
Opening balance as at 30 June 2014	3,766,542
Less the sale of the investment in Petromad	(3,766,542)
Investment in Tellus	3,300,000
Capital reduction (Tellus Shares)	(3,300,000)
Balance after pro forma adjustments	<u>-</u>

2. Creditors and borrowings - Current

Creditors and borrowings includes creditors and sundry accruals.

Movement in creditors and borrowings:	\$
Opening balance as at 30 June 2014	997,764
Less interest payable to Celtic Capital Pty Ltd (condition of the sale of the investment in Petromad)	(895,890)
Balance after pro forma adjustments	<u>101,874</u>

3. Interest bearing liabilities

The interest bearing liabilities of the Company relate to unsecured loans with Parimont Global Limited (**Parimont**) and Celtic Capital Pty Ltd (**Celtic**). These loans will be settled as part of the Transaction via the issue of Tellus Shares to Parimont and Celtic (or their respective nominees). As required by the Sale Agreement, a deed of debt conversion and release will be settled as part of the Transaction.

4. Creditors – Non Current

The non-current trade creditors are payables to related parties that are non-interest bearing.

5. Retained Losses

Movement in retained losses:	\$
Opening balance as at 30 June 2014	22,835,299
Gain on the sale of the investment in Petromad	(1,929,348)
Loss on disposal of investment (Tellus Shares)	3,300,000
Balance after pro forma adjustments	<u>24,205,951</u>

APPOINTMENT OF PROXY FORM - GENERAL MEETING

I/We being a Shareholder entitled to attend and vote at the Meeting, hereby appoint

OR The Chair as my/our proxy
(Name of Proxy)

or failing the person so named or, if no person is named, the Chair, or the Chair's nominee, to vote in accordance with the following directions, or, if no directions have been given, and subject to the relevant laws as the proxy sees fit, at the Meeting to be held at 9:30am, on 12 September 2014 at Level 1, 330 Churchill Avenue, Subiaco, Western Australia, and at any adjournment thereof.

The Chair intends to vote undirected proxies in favour of all Resolutions in which the Chair is entitled to vote.

Voting on business of the Meeting

		FOR	AGAINST	ABSTAIN
Resolution 1	Approval for an Equal Reduction of Capital	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	Change of Company Name	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please note: If you mark the abstain box for a particular Resolution, you are directing your proxy not to vote on that Resolution on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

If two proxies are being appointed, the proportion of voting rights this proxy represents is: _____ %

Signature of Shareholder(s):

Individual or Shareholder 1

Sole Director/Company Secretary

Shareholder 2

Director

Shareholder 3

Director/Company Secretary

Date: _____

Contact name: _____

Contact ph (daytime): _____

E-mail address: _____

Consent for contact by e-mail: YES NO

Instructions for Completing 'Appointment of Proxy' Form

1. **(Appointing a proxy):** A Shareholder entitled to attend and cast a vote at the Meeting is entitled to appoint a proxy to attend and vote on their behalf at the Meeting. If a Shareholder is entitled to cast 2 or more votes at the Meeting, the Shareholder may appoint a second proxy to attend and vote on their behalf at the Meeting. However, where both proxies attend the Meeting, voting may only be exercised on a poll. The appointment of a second proxy must be done on a separate copy of the Proxy Form. A Shareholder who appoints 2 proxies may specify the proportion or number of votes each proxy is appointed to exercise. If a Shareholder appoints 2 proxies and the appointments do not specify the proportion or number of the Shareholder's votes each proxy is appointed to exercise, each proxy may exercise one-half of the votes. Any fractions of votes resulting from the application of these principles will be disregarded. A duly appointed proxy need not be a Shareholder.
2. **(Direction to vote):** A Shareholder may direct a proxy how to vote by marking one of the boxes opposite each item of business. The direction may specify the proportion or number of votes that the proxy may exercise by writing the percentage or number of Shares next to the box marked for the relevant item of business. Where a box is not marked the proxy may vote as they choose subject to the relevant laws. Where more than one box is marked on an item the vote will be invalid on that item.
3. **(Signing instructions):**
 - **(Individual):** Where the holding is in one name, the Shareholder must sign.
 - **(Joint holding):** Where the holding is in more than one name, all of the Shareholders should sign.
 - **(Power of attorney):** If you have not already provided the power of attorney with the registry, please attach a certified photocopy of the power of attorney to this Proxy Form when you return it.
 - **(Companies):** Where the company has a sole director who is also the sole company secretary, that person must sign. Where the company (pursuant to Section 204A of the Corporations Act) does not have a company secretary, a sole director can also sign alone. Otherwise, a director jointly with either another director or a company secretary must sign. Please sign in the appropriate place to indicate the office held. In addition, if a representative of a company is appointed pursuant to Section 250D of the Corporations Act to attend the Meeting, the documentation evidencing such appointment should be produced prior to admission to the Meeting. A form of a certificate evidencing the appointment may be obtained from the Company.
4. **(Attending the Meeting):** Completion of a Proxy Form will not prevent individual Shareholders from attending the Meeting in person if they wish. Where a Shareholder completes and lodges a valid Proxy Form and attends the Meeting in person, then the proxy's authority to speak and vote for that Shareholder is suspended while the Shareholder is present at the Meeting.
5. **(Return of Proxy Form):** To vote by proxy, please complete and sign the enclosed Proxy Form and return by:
 - (d) post to Caravel Energy Limited, Level 1, 330 Churchill Avenue, Subiaco WA 6008; or
 - (e) facsimile to the Company on facsimile number +61 8 9200 4469; or
 - (f) email to the Company at info@caravelenergy.com.au,so that it is received not less than 48 hours prior to commencement of the Meeting.

Proxy Forms received later than this time will be invalid.