

## QUARTERLY ACTIVITY REPORT For the period ended 30 September 2010

The Directors of Carnavale Resources Limited ("Carnavale" or the "Company") are pleased to report the following activities for the September 2010 quarter:

### Lambouka Oil and Gas Exploration Project (20%)

The Lambouka prospect is located in the ADX operated Kerkouane permit offshore Tunisia. The Lambouka-1 drilling location is approximately 160km North East of Tunis in the Sicily channel. Lambouka is a large 70 square kilometre area tilted horst block which contained three potentially hydrocarbon bearing reservoirs. The goal was to drill a safe well to a total depth of 3,000 metres and to fully evaluate the three potential hydrocarbon formation objectives for the well.

The Lambouka prospect was drilled to its planned TD and an initial suite of wireline logs were run in the well. Due to deterioration of the wellbore, the partners decided against running additional logs and further attempts to flow test the well. Lambouka was suspended on the 8<sup>th</sup> of September in preparation for potentially re-entering the well at a later date to drill a sidetrack wellbore and potentially further evaluate and test the Abiod formation updip of the current potential discovery.

ADX Energy Limited has provided the results of an internal study, the "Lambouka Preliminary Volumetric Resource Estimates" which was undertaken to provide a preliminary volumetric estimate of the potential hydrocarbon resource associated with Lambouka.

This resource estimate incorporates information from the newly acquired 3D seismic data and drilling and petrophysical log data from the recently drilled Lambouka-1 well. However it should be noted that these estimates have been made without the benefit of conclusive indications such as recovery of hydrocarbons at surface or through either fluid sample recovery via traditional wire-line methods, or from hydrocarbon flow from a drill-stem test, neither of which activities could be performed during drilling operations primarily due to down hole well conditions.

There remain numerous areas of uncertainty in regards to the parameters used for the volumetric estimates for Lambouka and therefore industry standard stochastic methods were utilized to generate this resource estimate. The estimate incorporates a similar "gas to condensate ratio" as was identified in the nearby Dougga gas condensate field. Lambouka-1 well site gas chromatography data indicated a condensate rich gas and the absence of CO<sub>2</sub> which was not detected on measuring equipment during the drilling of the well.

The Company therefore considers the Operator's estimates to reflect contingent resources at best as the resource estimates have been produced without the benefit of well test results, full fluid composition analysis, confirmation of commercial hydrocarbons, a detailed field development plan or analysis of other factors of economic relevance.

**In summary, the Operator's estimates for Lambouka are as follows**

	P90	P50	Mean	P10
Sales Gas (BCF)	145	277	309	528
Condensate (mmbbls)	11	21	24	41
Oil Equivalent (mmboe)*	35	67	75	129

(\* million barrels of Oil equivalent)

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The resource evaluation is based on incorporation of the following data:

- a comprehensive set of LWD and wire line log data
- gas chromatography data acquired during the Lambouka #1 drilling campaign; and
- an updated 3D seismic interpretation incorporating geological data acquired during the drilling of the Lambouka #1 well.

Note that ADX has utilised a number of third party log analysis experts to review log data and contribute to this evaluation.

These estimates relate to the Abiod and Allam carbonate reservoirs interpreted as Hydrocarbon bearing at the Lambouka-1 well location, and any up-dip potential in underlying reservoirs within the Lambouka structure was not incorporated.

The Company considers these estimates can be utilized as a reasonable starting point for the ongoing evaluation of Lambouka. This will include the compilation and review of all existing information and data, technical workshops and the development of a strategy that will be required to safely and efficiently enter into the next phase of data acquisition to firm up the Lambouka resource estimates. These plans may include re-entry into the original well-bore and side tracking the well, drilling and wire-line log data acquisition and flow testing. A complete evaluation programme is expected to be in place by year end.

### **Parmegiana Iron Ore Project, Brazil (100%)**

In early July 2010, Vale advised that it would not exercise its option to continue with the Parmegiana Iron Ore Project. The Company is currently reviewing all technical data from work completed by Vale to determine the way forward for the Parmegiana Iron Ore Project.

### **Corporate**

The Board is continuing to review new mineral project and corporate opportunities.



Ron Gajewski  
Executive Director

***For further information in respect of Carnavale please contact:***

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Carnavale Resources website: [www.carnavaleresources.com.au](http://www.carnavaleresources.com.au).

***The information in this report that relates to oil and gas exploration results and hydrocarbon reserves is based on information compiled by Mr Greg Lee, who is a Petroleum Engineer. Mr Lee is a Consultant to the Company. Mr Lee has more than 28 years respective relevant experience within the Oil and Gas sector and he consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.***

## Appendix 5B

### Mining exploration entity quarterly report

Name of entity

<b>CARNAVALE RESOURCES LIMITED</b>
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ABN

49 119 450 243

Quarter ended ("current quarter")

30 September 2010

#### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (3 months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration and evaluation	(1,066)	(1,066)
(b) development	-	-
(c) production	-	-
(d) administration	(170)	(170)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	85	85
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other – Due diligence expenses	-	-
<b>Net Operating Cash Flows</b>	<b>(1,151)</b>	<b>(1,151)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchase or renewal of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other –	-	-
<b>Net investing cash flows</b>	<b>-</b>	<b>-</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(1,151)</b>	<b>(1,151)</b>

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1.13	Total operating and investing cash flows (brought forward)	(1,151)	(1,151)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	542	542
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other – share issue expenses	-	-
	<b>Net financing cash flows</b>	542	542
	<b>Net increase (decrease) in cash held</b>	(609)	(609)
1.20	Cash at beginning of quarter/year to date	6,312	6,312
1.21	Exchange rate adjustments to item 1.20	(87)	(87)
1.22	<b>Cash at end of quarter</b>	5,616	5,616

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	100
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

	A\$'000
Directors fees, consultancy charges and remuneration	87
Accounting , secretarial and legal expenses	13

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A.

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/A

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**Financing facilities available**

*Add notes as necessary for an understanding of the position.*

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

**Estimated cash outflows for next quarter**

	\$A'000
4.1 Exploration and evaluation	3,000
4.2 Development	-
4.3 Production	-
4.4 Administration	150
<b>Total</b>	<b>3,150</b>

**Reconciliation of cash**

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	1,851	330
5.2 Deposits at call	3,765	5,982
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>5,616</b>	<b>6,312</b>

**Changes in interests in mining tenements**

	Tenement reference	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed				
6.2 Interests in mining tenements acquired or increased				

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**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (cents)	Amount paid up per security (cents)
7.1 <b>Preference securities</b> <i>(description)</i>	-	-	-	-
7.2 Changes during quarter	-	-	-	-
7.3 <b>+Ordinary securities</b>	87,739,708	87,739,708		
7.4 Changes during quarter				
Exercise of options	2,712,008	2,712,008	<i>20 cents</i>	<i>20 cents</i>
7.5 <b>+Convertible debt securities</b> <i>(description)</i>	-	-	-	-
7.6 Changes during quarter	-	-	-	-
7.7 <b>Options</b> <i>(description and conversion factor)</i>			<i>Exercise price</i>	<i>Expiry date</i>
	79,588,524	79,588,524	<i>20 cents</i>	<i>28 February 2013</i>
7.8 Issued during quarter	-	-	-	-
7.9 Exercised during quarter	(2,712,008)	(2,712,008)	<i>20 cents</i>	<i>28 February 2013</i>
7.10 Cancelled/Expired during quarter	-	-	-	-
7.11 <b>Debentures</b> <i>(totals only)</i>	-	-		
7.12 <b>Unsecured notes</b> <i>(totals only)</i>	-	-		

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## Compliance statement

- 1 This statement has been prepared under accounting policies, which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement gives a true and fair view of the matters disclosed.



Sign here:  
Print name: Paul Jurman  
Company Secretary

Date: 29 October 2010

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities.** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.