

CARNAVALE RESOURCES LIMITED
ACN 119 450 243

PROSPECTUS

FOR

an Offer of 20,000,000 Shares at an issue price of
20 cents each to raise \$4,000,000

IMPORTANT INFORMATION

This document is important and requires your immediate attention. It should be read in its entirety. Due to the nature of the Company's activities, the Shares offered by this Prospectus should be considered speculative. Accordingly, you should consult your professional advisers in considering whether to subscribe for the Shares.

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APPLICATION FORM AND INSTRUCTIONS

CORPORATE DIRECTORY

Board of Directors

Adam Sierakowski	Non-Executive Chairman
Hans Biener	Executive Director - Brazil
Ron Gajewski	Executive Director - Australia
Peter Christie	Non-executive Director

Company Secretary

Paul Jurman

Registered and Principal Office

30 Ledger Road
Balcatta, Western Australia 6021
Telephone: (61 8) 9240 6876
Facsimile: (61 8) 9240 2406
Website: www.carnavaleresources.com

Share Registry

Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross Western Australia 6153
Telephone: (61 8) 9315 2333
Facsimile: (61 8) 9315 2233

Legal Advisers

Australia

Cullen Babington Hughes Pty Ltd
229 Stirling Highway
Claremont, Western Australia 6010

Brazil

Luis Mauricio F Azevedo
Av. das Americas. 700 Citta America
Bloco 8 – Loja 215A Barra da Tijuca
Rio de Janeiro RJ-CEP 22640-100 Brazil

Independent Consulting Geologist

Raylar Pty Ltd
1 Edith Place
Coolum Beach, Queensland 4573

Independent Accountants and Auditors

HLB Mann Judd
15 Rheola Street
West Perth Western Australia 6005

1. OFFER AND NOTES

1.1 Offer

This Prospectus seeks to raise up to \$4,000,000 by offering for subscription 20,000,000 Shares at an issue price of 20 cents each payable in full on application.

1.2 Important Notes

This Prospectus is dated 15 January 2007 and was lodged with the ASIC on 15 January 2007. Neither the ASIC nor ASX takes any responsibility for the contents of this Prospectus. No Shares will be allotted or issued on the basis of this Prospectus later than 13 months after the date of the Prospectus.

Application will be made to ASX within 7 days after the date of issue of this Prospectus for admission of the Company to the Official List of the ASX and for Official Quotation of the Shares the subject of this Prospectus.

No person has been authorised to provide information or to make any representation in connection with the Offer which is not contained in this Prospectus. Any such information or representation may not be relied upon as having been authorised by the Company.

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. Applications can only be made by completing the appropriate Application Form in full, in accordance with instructions contained on the reverse of the form.

Certain words and terms used in this Prospectus have defined meanings, which appear in Section 12.

1.3 Risk

Before deciding to invest in the Company, potential investors should read the entire Prospectus and, in particular, in considering the prospects for the Company, investors should consider the risk factors that could affect the financial performance and assets of the Company. Investors should carefully consider these factors in light of personal circumstances (including financial and taxation issues).

Carnavale is in the early stages of development and the risks are therefore significant. The Shares offered by this Prospectus should be considered speculative.

Refer to Sections 3.6 and 10 for details relating to risk factors.

Investors should seek advice from their professional advisor before deciding whether to invest. There is no guarantee that the Shares offered under this Prospectus will make a return on capital investment, that dividends will be paid on the Shares, or that there will be any increase in the value of the Shares in the future.

1.4 Exposure Period

This Prospectus will be circulated during the Exposure Period. The purpose of the Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds. Potential investors should be aware that this examination may result in the identification of deficiencies in the Prospectus and, in that circumstance, any application that has been received may need to be dealt with in accordance with Section 724 of the Corporations Act.

Applications for Shares under this Prospectus will not be accepted by the Company until after the expiry of the Exposure Period. No preference will be conferred on persons who lodge Applications during the Exposure Period.

1.5 Web Site – Electronic Prospectus

A copy of this Prospectus can be downloaded from www.carnavaleresources.com. Any person accessing the electronic version of this Prospectus for the purpose of making an investment in the Company must be an Australian resident and must only access the Prospectus from within Australia.

The Corporations Act prohibits any person passing on to another person an Application Form unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered version of this Prospectus. Any person may obtain a hard copy of this Prospectus free of charge by contacting the Company.

1.6 **How to apply for Shares**

Investors who wish to subscribe for Shares should complete an Application Form included in this Prospectus.

1.7 **Forward-Looking Statements**

Certain statements in this Prospectus constitute forward-looking statements. Investors should note that those statements are inherently subject to uncertainties in that they may be affected by a variety of known and unknown risks, variables and other factors which could cause actual values or results, performance or achievements to differ materially from anticipated results, implied values, performance or achievements expressed, projected or implied in the statements. These risks, variables and factors include, but are not limited to, the matters described in Section 10. Carnavale gives no assurance that the anticipated results, performance or achievements expressed or implied in those forward-looking statements will be achieved.

2. CHAIRMAN'S LETTER

Dear Investor

On behalf of the Directors, I am pleased to present this Prospectus and invite you to invest in Carnavale Resources Limited.

Carnavale Resources Limited was incorporated in Australia for the purpose of acquiring and developing gold and copper assets in Brazil. Brazil is a country that hosts many emerging resource projects and yet has vast exploration potential. The primary objective of Carnavale Resources Limited is to exploit the gold and copper exploration opportunities in the two gold/copper projects it has rights to acquire interests in, in order to grow shareholder value.

Carnavale Resources Limited has incorporated two 100% owned subsidiary companies in Brazil. Carnavale Resources Mineracao Ltda and Carnaval Recursos Minerais E Mineracao Do Brasil Ltda.

The subsidiaries have entered into agreements to acquire:

- up to a 100% interest in the Morro do Cobre copper/gold Project located in the Mato Grosso State of Brazil within the Alto Jauru greenstone Belt. The Morro do Cobre copper/gold Project area is largely untested by modern exploration methods; and
- a 100% interest in the Toucanas Gold Project located in the southern portion of the Tapajos gold Province in the Para State of Brazil. The Tapajos Gold Province has produced approximately 600 metric tonnes of gold in the past 40 years. The Tapajos gold province is a major magmatic province and contains more than 100 gold deposits.

The Carnavale Resources Limited board brings together a strong combination of experience and expertise that will ensure sound management in the development and enhancement of the Company's assets. Hans Biener will lead an exploration team in Brazil to guide the Company's operations.

This Prospectus has been issued by Carnavale Resources Limited for the purposes of the offer of 20 million Shares at 20 cents each to raise \$4 million before costs, with a minimum subscription of \$3 million before costs. The Prospectus includes details of the Company, the assets and proposed operations, together with a statement of the risks associated in investing in Carnavale. I recommend that you study this document carefully and, if you are interested in investing in Carnavale Resources Limited, seek professional investment advice before participating.

On behalf of the Directors, I commend this offer to you and look forward to welcoming you as a shareholder in Carnavale Resources Limited.

Yours faithfully

Adam Sierakowski
Chairman
15 January 2007

3. INVESTMENT SUMMARY

This section is intended only as a summary of certain matters. Prospective investors should read the Prospectus in its entirety.

3.1 Carnavale's Objectives and Strategies

(a) Properties

Carnavale has entered into a purchase agreement to acquire an 80% interest in the Morro do Cobre copper/gold exploration project in the Mato Grosso State, Brazil with an option to acquire the remaining 20% interest. The Morro do Cobre property is within the area of the Alto Jauru Greenstone Belt and Carnavale plans to undertake a comprehensive geological program in 2007.

Carnavale has entered into a purchase agreement to acquire a 100% interest in the Toucanas gold exploration project in the Tapajós Gold Province. The Toucanas property is comprised of 2 exploration licences totalling 4,000ha. The Tapajós Gold Province is a 350 km by 300 km area in the southwest part of Brazil's northerly Pará State Brazil within the Amazon basin and has produced approximately 600 metric tonnes of gold in the past 40 years.

(b) Objective and Strategies

Carnavale's primary objective is to maximise shareholder value through the discovery of significant gold and copper deposits in Brazil, focussing initially on its 2 projects in Brazil.

Carnavale believes it will enhance the likelihood of achieving its corporate objective by focussing its exploration effort:

- on gold and copper projects with an identified style of mineralisation;
- projects that have robust exploration models;
- utilising advanced exploration models together with proven analytical and geophysical techniques to identify additional drilling targets;
- continuing to identify new opportunities for acquisition or joint venture based on the above selection criteria and by tapping into the Company's extensive network of contacts in Brazil;
- maintaining a flat management structure and establishing success based incentives such as an employee share option scheme; and
- maintaining a high social awareness and applying high environmental and safety standards during all exploration and any mining activities.

3.2 Purpose of the Offer and Planned Expenditure

The purpose of the Offer is to raise funds to:

- (a) explore the Company's mineral interests as described in this Prospectus; and
- (b) meet the ongoing administration costs of the Company.

Pursuant to the Offer, Carnavale is seeking to raise \$4 million with a minimum subscription of \$3 million. In addition, at 30 November 2006, it had net working capital of approximately \$150,000 on an adjusted basis (adjusting for seed capital raised after 30 November 2006 and prior to the date of this Prospectus). It is proposed that these funds will be utilised as follows:

3.3 Minimum Subscription (\$3 million minimum raised under the Prospectus Offer)

	Year 1	Year 2	Total
	\$	\$	\$
Acquisition Costs – Morro do Cobre*	160,000	467,000	627,000
Acquisition Costs – Toucanas*	21,000	67,000	88,000
Exploration and evaluation – Morro do Cobre (as per Independent Consulting Geologist's Report)	403,000	355,500	758,500
Exploration and evaluation –Toucanas (as per Independent Consulting Geologist's Report)	368,000	302,000	670,000
Administration and corporate costs	300,000	350,000	650,000
Issue costs	280,000	-	280,000
	<u>1,532,000</u>	<u>1,541,500</u>	<u>3,073,500</u>

*These figures assume an exchange rate of \$1.00 to 0.75 US dollars and \$1.00 to 1.667 Brazilian Real.

3.4 **Maximum Subscription (\$4 million maximum raised under the Prospectus Offer)**

	Year 1	Year 2	Total
	\$	\$	\$
Acquisition Costs – Morro do Cobre*	160,000	467,000	627,000
Acquisition Costs – Toucanas*	21,000	67,000	88,000
Exploration and evaluation – Morro do Cobre (as per Independent Consulting Geologist's Report)	630,000	516,000	1,146,000
Exploration and evaluation –Toucanas (as per Independent Consulting Geologist's Report)	621,000	577,000	1,198,000
Administration and corporate costs	300,000	350,000	650,000
Issue costs	335,000	-	335,000
	<u>2,067,000</u>	<u>1,977,000</u>	<u>4,044,000</u>

*These figures assume an exchange rate of \$1.00 to 0.75 US dollars and \$1.00 to 1.667 Brazilian Real.

If the maximum subscription of \$4 million is raised it is proposed that the additional available working capital will be used for fast tracking exploration activities on the Morro do Cobre and Toucanas Projects and also for identifying and assessing other mineral opportunities.

If less than the full amount of funds are raised the Company proposes to concentrate its exploration efforts and consequent expenditure as set out below.

Funds will be allocated to each project to ensure the minimum exploration requirements and acquisition costs of that project are met.

The proposed year one exploration activities for each project including drilling as set out in the Independent Consulting Geologist's report at Section 7 will be implemented. Once the year one program has been completed and exploration including drilling has been undertaken on all projects available funds will be allocated to the particular project in the following order of priority:

- (a) Morro do Cobre;
- (b) Toucanas,

while ensuring that the minimum exploration requirements and acquisition costs of each project are met.

The exploration programs are dependent upon:

- the success of any particular part of the program; and
- whether the Company seeks to attract other participants in the projects, which participants will undertake or share all or part of the exploration expenditure commitments.

It is not possible to state with any degree of certainty which component of the exploration program will proceed in the event that the Company obtains encouraging results and needs to expedite exploration on any particular aspect of any particular project.

The information set out in the above table is a statement of intention as at the date of this Prospectus. The exact amount of funds spent by the Company will be dependent on many factors that cannot be ascertained at this time. Investors should be aware that actual expenditure incurred on the projects will depend on the results achieved.

The Directors are satisfied that upon completion of the minimum subscription (\$3 million) under this Offer, Camavale will have sufficient funds to meet its stated primary objective.

3.5 Capital Structure

The capital structure of the Company at completion of the Offer will be as follows:

	Number of Shares	Percentage	Notes
Subscriber shares on registration of the Company	3	-	
Promoter shares	21,500,000	48.81%	1
Seed capital	2,550,000	5.79%	2
Shares on issue at the date of the Prospectus	24,050,003		
Shares being offered by this Prospectus – minimum subscription	15,000,000	34.05%	
Total shares on issue if only minimum subscription raised	39,050,003		
Additional shares offered by this Prospectus if fully subscribed	5,000,000	11.35%	
Total assuming Offer is fully subscribed	44,050,003	100%	

Notes:

1. These Shares will be subject to ASX escrow conditions for a period of 2 years from the date of quotation of Shares on the ASX.
2. A portion of these Shares will be subject to ASX escrow conditions for a period of one year from the respective dates of issue of these Shares.

3.6 Risk Factors

Carnavale is a mineral exploration company at an early stage of development and any investment in Shares is speculative. There are a number of risks that may have a material and adverse impact of the future operating and financial performance of Carnavale and the value of its Shares. A summary of some of the risks is set out below. Further details in respect of these risk factors are set out in Section 10.

(a) General risks

Securities investments and share market conditions - There are risks associated with any securities investment. The market price of the Shares could fluctuate in response to a large number of factors.

(b) Risks Specific to Mineral Exploration Companies

Exploration and mining risks - The exploration for and development of mineral deposits involves significant risks that even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an ore body may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. Major expenditures may be required to locate and establish mineral reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. There is no certainty that the expenditures made by Carnavale towards the search for and evaluation of mineral deposits will result in discoveries that are commercially viable.

(c) Economic and price risks

The demand for, and price of, copper, gold and other minerals is dependent on a variety of factors which are beyond Carnavale's control. Fluctuations in mineral prices may have a material adverse effect on exploration and mining companies businesses, financial condition and results of operations.

(d) Title Risk

All of the mineral licences in which Carnavale has an interest will be subject to applications for renewal or are subject to application for granting (and if granted will be subject to applications for renewal in the future), the success of which cannot be guaranteed. If a licence is not granted or renewed, Carnavale may suffer significant damage through loss of the opportunity to discover and develop any mineral resources on that licence.

(e) Country and Sovereign Risk

Carnavale's projects are located in the Republic of Brazil. As such, Carnavale's operations are exposed to various levels of political, economic and other risks and uncertainties associated with operating in a foreign jurisdiction. In addition, any material adverse changes in government policies or legislation in Brazil that affects mineral exploration, development or mining activities, may adversely affect the viability and profitability of the Company's assets in that country.

(f) Execution Risk

Under the terms of the Morro do Cobre and Toucanas acquisition agreements Carnavale's subsidiaries are acquiring interests in the Morro do Cobre and the Toucanas projects. Carnavale is conducting exploration at these properties and there is no guarantee that it will complete its purchase of the interest in either property.

OTHER RISKS APPLY

Further details in respect of these risk factors are set out in Section 10

4. DETAILS OF THE OFFER

4.1 The Offer

This Prospectus constitutes an offer by Carnavale of 20,000,000 Shares at an issue price of 20 cents per Share payable in full on application to raise \$4 million.

The Shares offered by this Prospectus will be issued as fully paid shares and, when issued, will rank equally in all respects with existing Shares.

4.2 Indicative Timetable

Prospectus lodged with ASIC	15 January 2007
Opening date	23 January 2007
Closing Date for applications	23 February 2007
Expected dispatch of holding statements	1 March 2007
Expected date of commencement of trading of Shares on ASX	15 March 2007

These dates are indicative only. The Company reserves the right to extend the Closing Date without prior notice or to close the Offer earlier than the Closing Date. The date the Shares will commence trading on ASX may vary with any change in the Closing Date.

4.3 Minimum Subscription and Underwriting

The minimum subscription to the Issue is \$3,000,000. If the minimum subscription is not reached within 4 months after the date of this Prospectus, the Directors will not allot any Shares and the Company will within 7 days thereafter repay all application monies received, without interest.

Subject to the minimum subscription being reached, the issue of Shares will proceed as soon as possible after the Closing Date and after ASX permission for Official Quotation of the Shares is received.

The Offer is not underwritten.

4.4 Applications and Payment for Shares

An Application constitutes an offer by you to subscribe for Shares on the terms and conditions of the Offer. An Application can only be made on an Application Form contained in this Prospectus. Applications must be for a minimum of 10,000 Shares (representing a minimum investment of \$2,000) and thereafter in multiples of 1,000 Shares.

If you decide to apply for Shares, you must:

- (a) complete the enclosed Application Form;
- (b) pay the application monies by cheque drawn on and payable at any Australian bank in Australian currency. Your cheque should be crossed "Not Negotiable" and be made payable to Carnavale Resources Limited. Cash will not be accepted and receipts will not be issued; and
- (c) lodge the completed Application Form and your cheque by posting or delivering it to the Company in accordance with the instructions contained in the Application Form.

Until the issue of Shares to applicants all application monies will be held by the Company in trust in a bank account established solely for that purpose. Any interest that accrues on that account will be retained by the Company.

The acceptance of Applications and the allocation of Shares is at the discretion of the Directors. Carnavale reserves the right to allot to an Applicant a lesser number of Shares than the number for which the Applicant applies or to reject an Application. If the number of Shares allotted is less than the number applied for, surplus Application money will be refunded without interest.

4.5 **Stock Exchange Listing**

Within 7 days from the date of this Prospectus, the Company will apply to ASX to be admitted to the Official List and for Official Quotation of:

- (a) the Shares issued under this Prospectus; and
- (b) all existing Shares. As referred to elsewhere in the Prospectus, some of the existing Shares will be subject to ASX escrow provisions.

ASX takes no responsibility for the contents of the Prospectus. The fact that ASX may admit the Company to the Official List is not to be taken as an indication by ASX of the merits of the Company or the Shares offered under this Prospectus.

If permission is not granted for the Company to be admitted to the Official List before the end of 3 months after the date of the issue of the Prospectus, then all application monies received pursuant to this Prospectus will be refunded to applicants in full, without interest.

4.6 **Non-Resident Investors**

This Prospectus does not constitute an Offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an Offer or extend such an invitation.

No action has been taken to register or qualify the Shares or the Offer or otherwise to permit a public offering of the Shares in any jurisdiction outside Australia.

The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons outside Australia who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities law.

It is the responsibility of applicants outside Australia to obtain all necessary approvals for the allotment and issue of Shares pursuant to this Prospectus. The return of a completed Application Form will be taken by the Company to constitute a representation and warranty by the applicant that all relevant approvals have been obtained.

4.7 **CHESS**

The Company will be admitted to participate in the Clearing House Electronic Subregister System ("CHESS") in accordance with the Listing Rules and the SCH Business Rules. On admission to CHESS, the Company will operate an electronic issuer-sponsored subregister and an electronic CHESS subregister. The 2 subregisters together will make up the Company's principal register of securities.

The Company will not issue share certificates to investors. Instead, investors who elect to hold their Shares on the issuer-sponsored subregister will be provided with a holding statement (similar to a bank account statement) by the Company which sets out the number of Shares allotted to each investor under this Prospectus. For investors who elect to hold their Shares on the CHESS subregister, the Company will, on allotment, issue an advice to investors that sets out the number of Shares allotted to the investor under this Prospectus and at the end of the month following the allotment, CHESS (acting on behalf of the Company) will provide investors with a holding statement that confirms the number of Shares allotted.

A holding statement (whether issued by CHESS or the Company) will also provide details of an investor's Holder Identification Number (in the case of a holding on the CHESS subregister) or Shareholder Reference Number (in the case of a holding on the issuer sponsored subregister). Following distribution of these initial holding statements to all investors, a holding statement will only routinely be provided to an investor at the end of any subsequent month during which the investor's holding of Shares changes.

4.8 **Restricted Securities**

Subject to the Company being admitted to the Official List, certain of the issued Shares, other than those subscribed for under this Prospectus, may be classified by ASX as restricted securities and will be required to be held in escrow pursuant to ASX Listing Rules.

4.9 **Handling Fee**

The Company may pay a fee of up to 5% of the amount subscribed (and accepted by the Company) to any holders of Australian financial services licences in respect of Applications bearing their stamps. No brokerage, commissions or other fee or stamp duty is payable by Applicants applying for Shares under this Prospectus.

4.10 **Options Offered Under Non-Renounceable Rights Issue**

The Company intends to undertake a option rights issue. The proposed offer will be to all shareholders registered on the date approximately 3 months after the Shares commence trading on the ASX. These Shareholders will be entitled to participate in a non-renounceable entitlement issue of Options on the basis of 1 Option for every Share held. The Options will be issued at a price of 1.0 cent each with an exercise price of 20 cents and an expiry date of 30 June 2009. A disclosure document for the entitlement issue of Options will be issued when the Options are offered. A summary of the terms and conditions of the options is set out in Section 11.11.

4.11 **Privacy**

If you apply for Shares you will be asked to provide personal information to Carnavale (and to Carnavale's share registry) which collects, holds and uses that personal information in order to assess your application, service your needs as an investor, provide facilities and services that you may request and carry out appropriate administration.

By submitting an Application Form, each applicant agrees that the Company may use the information in the Application Form for the purposes set out in this privacy disclosure statement and may disclose it for those purposes to the share registry, the Company's agents, contractors and third party service providers (including mailing houses), ASX, ASIC and other regulatory authorities.

4.12 **Enquiries**

Any questions concerning the Offer should be directed to the Company Secretary, Mr Paul Jurman on (08) 9240 6876.

5. DIRECTORS AND GOVERNANCE

5.1 Directors

Adam Sierakowski (Non-Executive Chairman)

Mr Sierakowski is a lawyer and partner of the legal firm Price Sierakowski. He has over 13 years experience in legal practice, much of which he has spent as a corporate lawyer consulting and advising on a range of transactions to a variety of large private and listed public entities. He has advised and guided many companies undertaking fundraising activities in Australia and seeking to list on the ASX. In addition, he has been retained as an advisor to many corporate reconstructions, mergers and acquisitions. He is the co-founder of Perth based corporate advisory business, Trident Capital.

In the past Mr Sierakowski held a number of board positions with ASX listed companies and is currently a director of Sterling Biofuels International Limited. He is a member of the Australian Institute of Company Directors and the Association of Mining and Exploration Companies.

Hans Biener (Executive Director) B.Ec

Mr Biener graduated from Ludwig Maximilian University with a degree in Economics in 1964 and has been a consultant to numerous foreign companies for feasibility studies in relation to mineral projects.

Ron Gajewski (Part time Executive Director), B.Bus, CPA

Mr Gajewski is an accountant by profession, with many years of experience as a director of public listed companies and as a corporate advisor to public companies. Mr Gajewski is currently chairman of Burey Gold Ltd and was formerly an executive chairman of Contact Resources Ltd and has held directorships with mining companies listed in both Canada and Australia.

Peter Christie (Non-Executive Director) B.Bus.

Mr Christie graduated from Curtin University with a Bachelor of Business in 1983 and is a qualified Accountant and Tax Agent. He has 17 years of public accounting experience and has developed extensive hospitality and property development interests.

5.2 Corporate Governance Statement

The Company has adopted comprehensive systems of control and accountability as the basis for the administration of corporate governance. The Board is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs. To the extent they are applicable and given its circumstances the Company has adopted the Ten Essential Corporate Governance Principles and Best Practice Recommendations ("Recommendations") as published by ASX Corporate Governance Council.

As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of additional corporate governance structures will be given further consideration.

The Board sets out below its "if not, why not" report in relation to those matters of corporate governance where the Company's practices depart from the Recommendations.

Principle 1 Recommendation 1.1

Notification of Departure: The Company has not formally disclosed the functions reserved to the Board and those delegated to management. The appointment of non-executive directors to the Board is not formalised in writing by way of a letter or other agreement.

Explanation for Departure:

The Board recognises the importance of distinguishing between the respective roles and responsibilities of the Board and management. The Board has established an informal framework for the management of the Company and the roles and responsibilities of the Board and management. Due to the small size of the Board and of the Company, the Board do not think that it is necessary to formally document the roles of Board and management as it believes that these roles are being carried out in practice and are clearly understood by all members of the Board and management. The Board is responsible for the strategic direction of the Company, establishing goals for management and monitoring the achievement of these goals, monitoring the overall corporate governance of the Company and ensuring that shareholder value is increased. The Company has 2

executives, being Mr Gajewski and Mr Biener. Mr Gajewski and Mr Biener are responsible for ensuring that the Company achieves the goals established by the Board.

The appointments of non-executive directors are formalised in accordance with the Company's constitution.

Principle 2 Recommendation 2.2

Notification of departure: The Company does not have a majority of independent directors, with only 2 of the 4 Board members being independent.

Explanation for departure

The Board considers that the current composition of the Board is adequate for the Company's current size and operations, and includes an appropriate mix of skills and expertise, relevant to the Company's business. The current Board structure presently consists of the non executive chairman, 2 executive directors and one non-executive director, only 2 of whom are independent. The Company considers that each of the directors possess skills and experience suitable for building the Company. The Board takes the responsibilities of best practice in corporate governance seriously. It is the Board's present intention to review its composition following ASX listing and appoint another independent director with technical skills in the mining sector.

Principle 2 Recommendation 2.4 and Principle 4 Recommendations 4.2 and 4.3

Notification of Departure: Separate audit and nomination committees have not been formed.

Explanation for Departure

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of separate or special committees at this time. The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards.

In particular, the full Board considers those matters that would usually be the responsibility of an audit committee and a nomination committee. The Board considers that, at this stage, no efficiencies or other benefits would be gained by establishing a separate audit committee or a separate nomination committee.

Principle 3 Recommendation 3.1

Notification of Departure: The Company has not established a formal code of conduct.

Explanation for Departure:

The Board considers that its business practices as set by the Board and key executives are the equivalent of a code of conduct.

Principle 5 Recommendation 5.1

Notification of Departure: The Company has not established written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and accountability for compliance.

Explanation for Departure:

The Company's directors have a long history of involvement with public listed companies and are familiar with disclosure requirements of the ASX listing rules.

The Company has in place informal procedures which it believes are sufficient for ensuring compliance with ASX Listing Rule disclosure requirements and accountability for compliance. The Board has nominated the non-executive chairman and the company secretary as being responsible for all matters relating to disclosure.

Principle 6 Recommendation 6.1

Notification of Departure: The Company has not established a formal shareholder communication strategy.

Explanation for Departure:

While the Company has not established a formal shareholder communication strategy, it intends, once it is listed, to actively communicate with its shareholders in order to identify the expectations of its shareholders and actively promote shareholder involvement in the Company. It will achieve this by posting on its website, copies of all information which is lodged with the ASX. Shareholders with internet access will also be encouraged to provide their email addresses to receive electronic copies of information distributed by the Company. Alternatively, hard copies of information distributed by the Company will be available on request.

Principle 7 Recommendation 7.1

Notification of Departure: The Company has an informal risk oversight and management policy and internal compliance and control system.

Explanation for Departure:

The Board does not currently have formal procedures in place but is aware of the various risks that affect the Company and its particular business. Section 10 provides a summary of the relevant risk factors that will affect the Company. As the Company develops, the Board will develop appropriate procedures to deal with risk oversight and management and internal compliance, taking into account the size of the Company and the stage of development of its projects.

Principle 8 Recommendation 8.1

Notification of Departure: The Company does not have in place a formal process for evaluation of the Board, its committees, individual directors and key executives.

Explanation for Departure:

An evaluation of the Board has been carried out on a continuing and informal basis as part of the Company's preparations for the initial public offering and proposed listing on ASX. The Company will put in place a process for evaluating the Board, individual directors and key executives once it has been listed.

Principle 9 Recommendations 9.1, 9.2, 9.3, 9.4

Notification of departure: The Company does not have a formal remuneration policy and has not established a separate remuneration committee. Non-executive directors may receive options.

Explanation for Departure:

The current remuneration of the Company's directors is disclosed in Section 11 of the Prospectus. Non-executive directors receive a fixed fee for their services and may also receive options. The issue of options to non-executive directors is considered an appropriate method of providing sufficient incentive and reward whilst maintaining cash reserves.

Due to the early stage of development and small size of the Company, a separate remuneration committee was not considered to add any efficiency to the process of determining the levels of remuneration for the directors and key executives. The Board considers that it is more appropriate to set aside time at specified Board meetings each year to specifically address matters that would ordinarily fall to a remuneration committee. In addition, all matters of remuneration will continue to be in accordance with regulatory requirements, especially in respect of related party transactions. That is, none of the directors participate in any deliberations regarding their own remuneration or related issues.

6. CARNAVALE'S PROJECTS

6.1 Background – Project Selection

Carnavale was incorporated on 28 April 2006.

A number of mineral projects were assessed by the Company before the Directors reviewed the Morro do Cobre Project and concluded that it has the potential to develop into a significant copper/gold deposit. The Company has entered into purchase agreements in Brazil in respect of the:

- Morro do Cobre copper/gold Project in the Mato Grosso State, and
- Toucanas gold Project in the Para State.

Project assessment was based on targeting regions which:

- (a) have significant small scale surface gold production;
- (b) are unexplored by modern techniques; and
- (c) are in a country and involve resource projects in which the Directors and Carnavale staff have substantial experience.

6.2 Morro do Cobre Project - Mato Grosso State, Brazil (Carnavale - 80%)

The property was chosen due to its extensive strike potential based on limited exploration, numerous copper occurrences on surface, excellent infrastructure and its geological setting within the Alto Jauru Greenstone Belt.

Carnavale has entered into a purchase agreement to acquire 80% in the Morro do Cobre property in Brazil for a purchase price of US\$1,000,000. The Company is solely responsible for funding exploration expenditure.

The remaining 20% of the Morro do Cobre Project can be acquired by the Company for a further US\$1,000,000.

Details of the commercial and legal arrangements are provided in the Solicitors Report at Section 9. The Independent Geologist's Report with respect to the Morro do Cobre Project is at Section 7.

The Morro do Cobre Project covers 90km². The mineral claim relating to the Morro do Cobre Project is for a period of 3 years with the right to apply for a renewal for a period determined by the relevant authority.

The Alto Jauru Greenstone Belt has already demonstrated the potential to host significant mineralisation with discovery of the Cabaçal Au-Cu deposit (1.1Mt @ 11.6 g/t Au) by BP Mineração in 1983. Cabaçal is located approximately 50km north east of the Morro do Cobre Project and artisanal miners have won gold from areas within the greenstone belt but with the exception of the Cabaçal discovery, the region as a whole has never been the focus of any methodical exploration.

No drilling is reported over the Morro do Cobre Project area. Carnavale considers the Moro do Cobre property as an excellent opportunity to capitalise on the lack of exploration in the region and rapidly convert the surface anomalies into resources. Carnavale's exploration strategy will centre on the previously reported copper in soil anomalism combined with the recently noted outcrop surface mineralisation. The soil-sampling grid will be expanded over the licence and in filled within the current broad anomalies. Due to the general lack of outcrop over the property, ground and airborne geophysics will be conducted to aid the geological and structural interpretations with a view to commencing drilling in the second quarter of 2007.

6.3 Toucanas Project -Para State, Brazil (Carnavale - 100%)

Carnavale has entered into a purchase agreement to acquire an interest of 100% in the Toucanas property in Brazil for a purchase price of US\$600,000 and 35,000 Brazilian Reals. The Company is solely responsible for funding exploration expenditure.

The mineral claims relating to the Toucanas Project are for a period of 3 years with the right to apply for a renewal for a period determined by the relevant authority.

The Toucanas project is located in the southern portion of the Tapajos gold province, within the Amazon basin. The Tapajos gold province has produced approximately 600 metric tonnes of gold in the past 40 years and is a major magmatic province with more than 100 gold deposits and occurrences, generally hosted in granitoids of different paleo-proterozoic ages and affinities, as well as by gneisses, felsic to intermediate volcanic sand, minor gabbroic and metavolcanic-sedimentary rocks. Most of the deposits are gold bearing quartz veins, with stockworks and disseminations occurring to a lesser extent.

The southern part of the Tapajos gold province is host to a series of gold projects typically hosted in orogenic gneisses of the Cuiu-Cuiu Complex and granites of the Parauari and Creporizao Intrusive Suites. As these lithologies dominate the project area coupled with the structural patterns and orientations, Carnavale is confident of quickly locating a significant resource.

Carnavale has assembled a project that amounts to a significant land position within a major gold district, with multiple potentially significant gold targets comprising of a 4,000 ha position in the heart of the Tapajos gold province.

The basic geology of the Tapajos district, still only barely explored, is broadly believed to be highly similar to the Timmins, Ontario and the Kalgoorlie gold districts. Geologically, the Tapajos area is situated within the highly gold productive Archaean-aged Brazilian Shield that runs from Brazil through Guyana and into Venezuela. The Tapajos' widespread alluvial gold deposits are believed to be a strong indicator of the area's exploration potential, resulting from primary hard-rock gold deposits that lie along structural controls of the major intrusive-fed shear zones running through the area.

During the 1970s and 1980s, the Tapajos area annually produced 30% to 40% of Brazil's total gold output. Official government estimates of total Tapajos alluvial gold production (to 1993) places this at between 7 million and 10 million ounces.

Garimpeiros (local alluvial miners) are officially reported to produce 200,000 to 300,000 ounces of gold annually in the Tapajos District.

4 January 2007

The Directors
Carnavale Resources Limited
30 Ledger Road
Balcatta, Western Australia 6021

Dear Sirs

INDEPENDENT GEOLOGIST'S REPORT ON THE MORRO DO COBRE AND TOUCANAS PROJECTS

Raylar Pty Ltd has been commissioned by Carnavale Resources Limited ("Company" or "Carnavale") to provide an Independent Geologist's Report on the Company's Morro do Cobre copper and gold project located in the Mato Grosso State and the Toucanas gold project located in the state of Para, in Brazil.

This Report has been prepared in accordance with the Code and guidelines for Assessment and Valuation of Mineral Assets and Mineral Securities for Independent Expert Reports ("The Valmin Code"), which is binding upon Members of the Australian Institute of Geoscientists ("AIG"), and the rules and guidelines issued by bodies as the ASIC and Australian Stock Exchange ("ASX"), which pertain to Independent Experts Reports. Where "Mineral Resources" have been referred to in this Report, the classifications are consistent with the Australian Code for Reporting of Mineral Resources and Ore reserves ("JORC"), prepared by the joint Ore Reserves Committee ("JORC") of the AusIMM, the Australian Institute of Geoscientists ("AIG") and the Mineral Council of Australia ("MCA"), effective 1999.

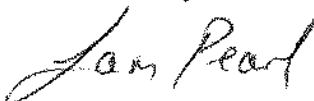
The properties are classified as exploration projects, which are inherently speculative in nature, but are considered to be sufficiently prospective, subject to varying degrees of risk, to warrant further exploration and development of their economic potential, consistent with the proposed programs.

Carnavale intends to raise a minimum of \$3 million with the majority of liquid assets held, or funds to be raised by Carnavale, to be committed to exploration and development of the Projects and the Company has sufficient working capital to carry out its stated objectives. Carnavale has prepared staged exploration programs, specific to the exploration potential of the Projects, which is consistent with its budget allocation. Raylar considers that the Project areas have sufficient technical merit and evidence of previous exploration to justify the proposed programs and expenditure. The proposed exploration and development programs exceed the minimum expenditure requirement on the projects.

The Independent Geologists Report has been compiled based on information available up to and including the date of this report. Raylar has given its consent for the inclusion of this report in the Prospectus in the form and context in which it appears, and has not withdrawn that consent prior to lodgement of the Prospectus with the ASIC. Raylar has been involved only in the preparation of the Report for the inclusion in the Prospectus and has authorised or caused issue of only this portion of the Prospectus.

Raylar is not and the author of this report is not, nor intends to be, a director, officer or direct employee of Carnavale and each has no material interest in the Project or Carnavale. Raylar's relationship with Carnavale is solely one of professional association between client and independent consultant. The review work and this report are prepared in return for professional fees based on agreed commercial rates and the payment of these fees is in no way contingent on the result of the Report.

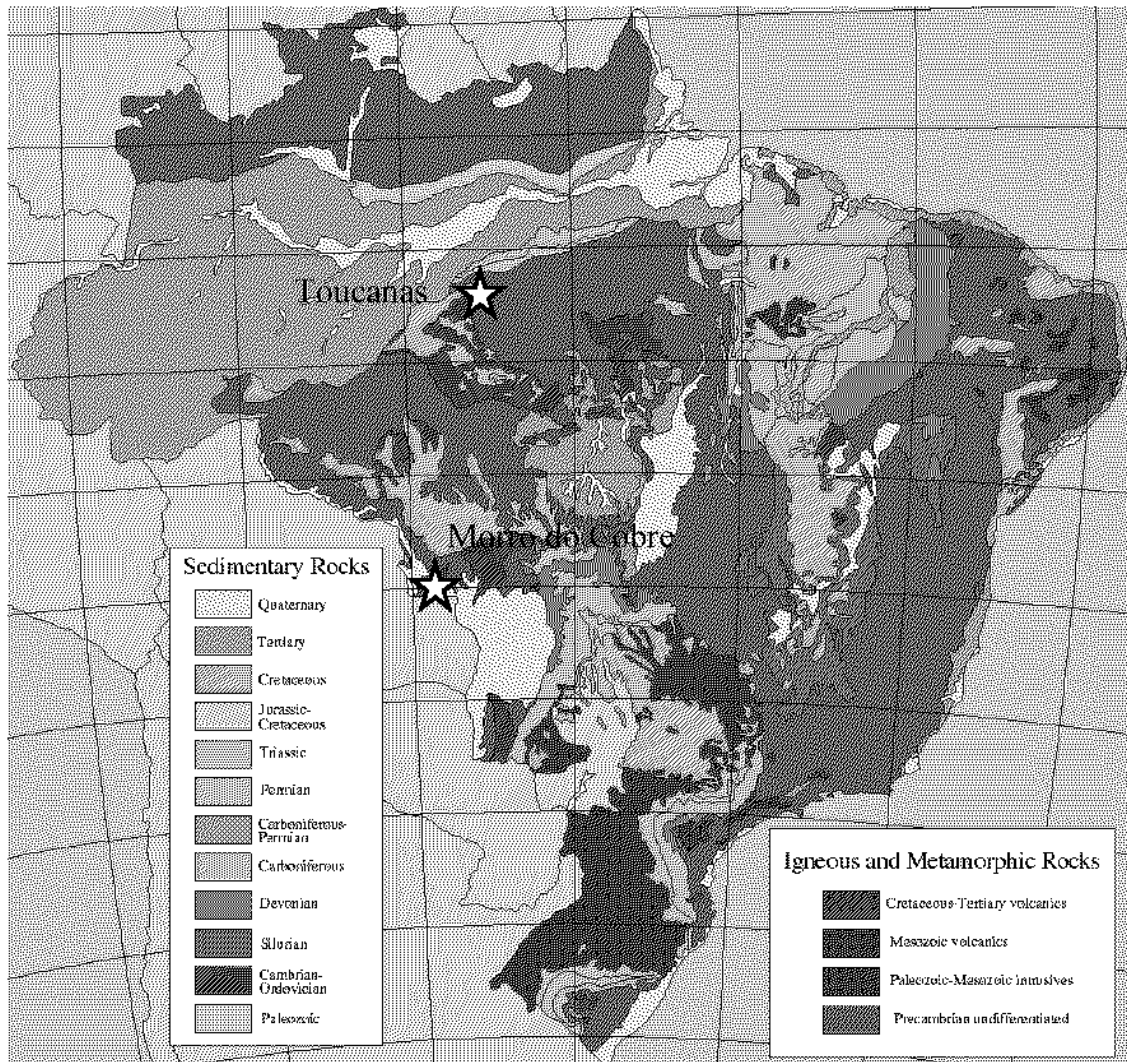
Yours faithfully,



Lars Pearl
Director - Raylar Pty Ltd

1. INTRODUCTION

Carnavale Resources Limited (**Carnavale**) has entered into agreements to acquire interests in 2 projects in Brazil. The projects are the 9,000 Ha Morro do Cobre copper (Cu) - gold (Au) project located in the State of Mato Grosso and the Toucanas gold project.



Project locality map

2. MORRO DO COBRE

2.1 Introduction

The Morro do Cobre copper/gold Project (**Morro do Cobre**) covers an area of 9,000 Ha, registered with the Brazilian mines department, DNPM (Departamento Nacional de Produção Mineral), under license number 866.025/2006 granted on the 26 January 2006 in the name of Antonio Rodrigues Ferraz Filho.

Corner coordinates are:

NW	-15 ^o 42'52"S / -58 ^o 37'22"W
NE	-15 ^o 42'52"S / -58 ^o 31'46"W
SE	-15 ^o 42'52"S / -58 ^o 31'46"W
SW	-15 ^o 42'52"S / -58 ^o 37'22"W

Access to the project area is by 340km of sealed national highways, BR-070 and BR-174, from the state capital Cuiaba to the nearest town Porto Esperidiao. From Porto Esperidiao to the project area is a further 25km of which approximately the last 5 km is along graded farm access roads. The area also has several airstrips within 50km of the project area and charter flights are available from Cuiaba.

The project area was selected as a potential host for primary copper and gold mineralisation in the Paleoproterozoic volcano-sedimentary sequence in the Alto Jauru Green Stone Belt at the southwestern portion of the Amazon Craton. A primary copper-gold occurrence is logged on the property and is located on the margin of the topographic high, locally referred to as the Morro do Cobre.

The mineralisation is associated with altered acid volcanics, which have undergone intense shearing. Mylonitic textures are noted and the occurrence lithologies have undergone an intense hydrothermal alteration resulting in Cu enrichment, silicification, sericitisation, and biotitisation.

BP Mineracao dominated previous exploration in the region with the discovery of the Cabaçal Gold-Copper deposit in 1983, near Araputanga, 50km northeast of the Morro do Cobre project, along the Cabaçal tract of the Alto Jauru greenstone belt.

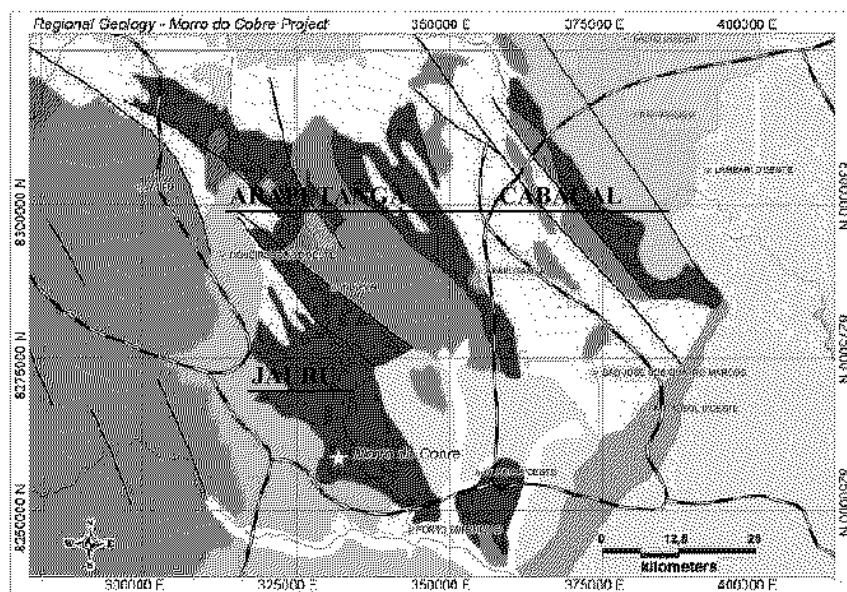
The Morro do Cobre Project is considered as structurally controlled by a North East striking, ductile shear zone formed during a regional event of NE-directed tectonic overthrusting. The Alto Jaru Greenstone Terrain is intruded by a multitude of rocks, such as the Indiavaí noritic gabbro, the Cabaçal tonalite and the Alvorada granite, which yielded Sm-Nd, U-Pb and Rb-Sr ages around 1688 ±45 Ma, 1636 Ma, 1523 ±278 Ma, respectively. These indicate an age of greenstone belt emplacement to fit within the Early Proterozoic

Wholerock Rb-Sr and single mineral (sericite) K-Ar radiometric determinations provide ages of 1638 ±48 Ma and 1645 ±78 - 1615 ±65 Ma, respectively, for the hydrothermal episode at the Cabaçal deposit and is considered similar to Morro do Cobre.

The Alto Jauru greenstone belt underwent an important tectonic event at around 1.7 Ga, comprising a complex assembly of metamorphism, plutonism, deformation and hydrothermal processes, which resulted in the formation of the Cabaçal gold deposit, and the Morro do Cobre occurrence, and lesser deposits within the greenstone belt. Exploration to date on the project includes mapping, outcrop sampling, soil sampling and a ground magnetometry surveys. The results of the limited exploration to date suggest that a good correlation exists between the structural interpretations, the anomalous copper, greater than 100ppm, and the ground magnetics.

Recent rock samples show highly encouraging copper concentrations in lithologies, which appear to be extensive within the project area. Copper grades from 9 samples from various lithologies graded up to 24% Copper and 5.80g/t Gold in a quartz muscovite garnet schist. Anomalous copper mineralisation has been traced along a discontinuous trend for approximately 3,500m.

Carnavale intends to conduct follow up exploration based on the current understanding of the project and to fast track drilling in order to test the depth and strike continuity and extensions of the known mineralisation.



Regional Geology showing the belts within the Jauru Greenstone Terrain

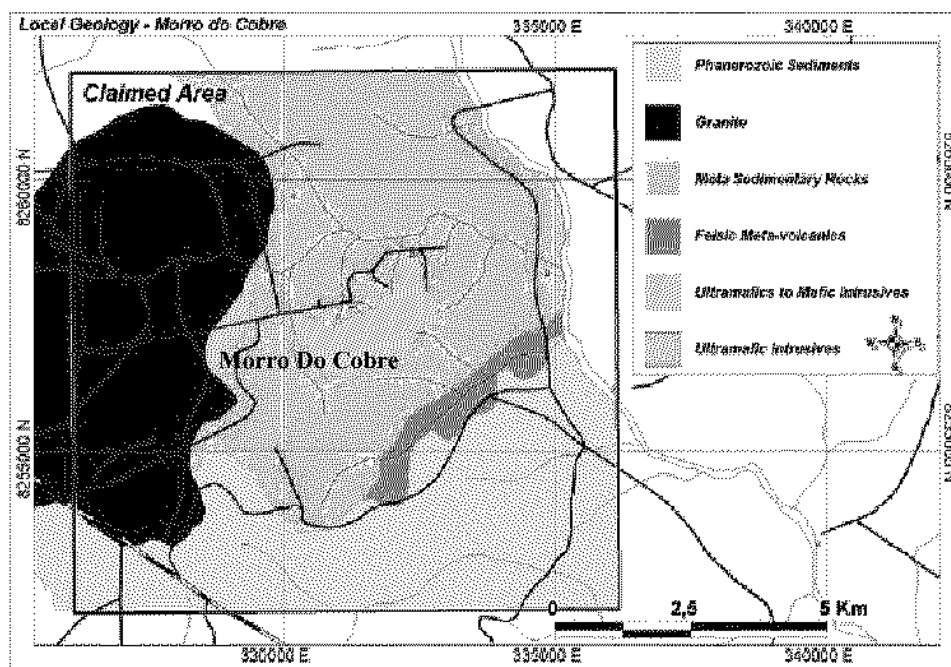
2.2 Regional Geology

The Alto Jauru Greenstone Terrain, designated by Monteiro et. al., (1986) is comprised of 3 distinct mineral assemblages of metavolcanic and sedimentary rocks. From east to west these are the Cabaçal, Araputanga and the Jauru, which are separated by granitic-gneiss terranes. Proterozoic dolerite and granitoids intrude these belts and basement rocks, which are overlain by the Meso Proterozoic Aguapei group rocks.

Plutonic rocks of tonalitic to granitic composition are described in the Jauru region and considered as coeval with the Alto Jauru Greenstone Belt volcanic rocks. The tonalites and granodiorites show either tonalite-trondjemite affinity or calc-alkaline trend. These chemical characteristics are consistent with an arc related genesis for the intrusive rocks. Chemical data shows that the felsic volcanic rocks are predominantly calc-alkaline, whilst the basic rocks are compatible to originating from ocean floor. This leads to the conclusion that the rocks of the Alto Jauru Greenstone Belt in the west, including the Jauru belt, formed in an ocean ridge setting and those to the east, Cabaçal belt, formed in an arc related setting Pinho et. al. (1997).

2.3 Project Geology

The project geology shows the Morro do Cobre project to be located within the Jauru Greenstone belt in the western margin of the Paleoproterozoic Alto Jauru Greenstone terrain. Due to the limited outcrop the lithologies of the occurrence are attributed to undifferentiated mafic-ultramafic volcanics and a sedimentary unit, which have undergone low-grade metamorphism (greenschist facies). The central area of the property is dominantly volcano-sedimentary sequence, which is intruded by a mafic to ultramafic unit. The geometry of the mafic intrusive is a NE trending elongated unit measuring 4km by 1km, and forms the locally named Morro do Cobre.



Tenement plan highlighting Morro Do Cobre

The Morro do Cobre mafic intrusive is correlated to the Rio Alegre intrusive suite, which is widespread throughout the Alto Jauru Greenstone terrain. This unit is interpreted as having intruded through the sedimentary units of the Jauru formation and comprises of conglomerates, sandstones and siltstones.

The known mineralisation within the project area is associated with a NE trending shear zone marked by garnet-muscovite-quartz schist. Primary Cu-Au mineralisation is contained within an acid volcanic, intensely sheared, metamorphosed to amphibolite facies, with mylonitic textures and overprinted by an intense hydrothermal alteration. The alteration resulted in copper enrichment, silicification, sericitisation and biotitisation.

The shear zone is located along the northern outcropping margin of the Morro Do Cobre mafic intrusive and has been inferred along strike for approximately 2,000m. Anomalous copper mineralisation has been noted discontinuously for approximately 3,500m associated with the shearing. The granitic plug, mapped in the western margin of the project area, has not been clearly identified at time of writing, and the significance, if any, will form part of the early exploration of the property by Camavale.

2.4 Previous Exploration

Generally the region has had minimal exploration. The bulk of work in the region was carried out by BP Mineracao who dominated previous exploration with the discovery of the Cabaçal Gold-Copper deposit in 1983, near Araputanga, 50km northeast of the Morro do Cobre project.

Various small-scale gold mines were active in the region in the past, with local artisanal miners focussing on the high-grade gold associated with quartz veins and associated sulphides. The area has also several occurrences of silver and copper and nickel sulphides associated with mafic and ultramafic rocks distributed throughout the region. Nickeliferous gossans are also noted to occur though in more restricted areas. Mining methods and exploration were limited to exploration based on shallow shafts and alluvial mining via water cannon and sluice.

Results of recent previous sampling by parties associated with the vendor, confirm the high grade potential of the copper occurrences with copper values of up to 24.08% of copper carbonate with 5.80 g/t gold noted in the quartz-muscovite-garnet schist. Other samples showed up to 0.5% Zinc. Follow up wide spaced, 300m*100m soil sampling identified anomalous copper values trending sub parallel to the NE trending shear.

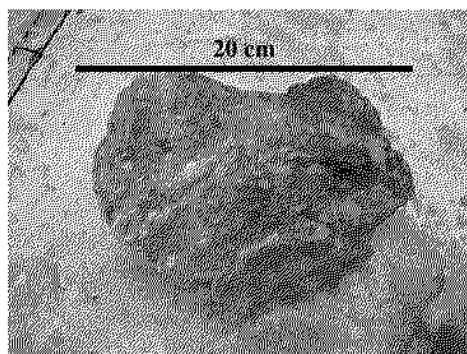
Cu (ppm)	Cu %	Au (ppb)	Au (ppm)	Zn (ppm)	Description
240,800	24.8	5825	5.83	684	Quartz-musc-garnet schist with malachite
50,800	5.08	1784	1.78	2,059	Sheared quartz-sericite-carbonate schist
37,400	3.74	112		123	Sheared quartztz-sericite-biotite-garnet schist
5,001	0.5	<5		299	Quartz-sericite-Schist with malachite - 3m channel
3,166	0.36	34		2,313	no description
2,225	0.23	96		5,001	no description
1,486	0.14	<5		109	Quartz -ser boulders
1,015	0.1	<5		128	Quartz -sericite Schist - 2m channel

Table 1. Recent samples of Morro do Cobre

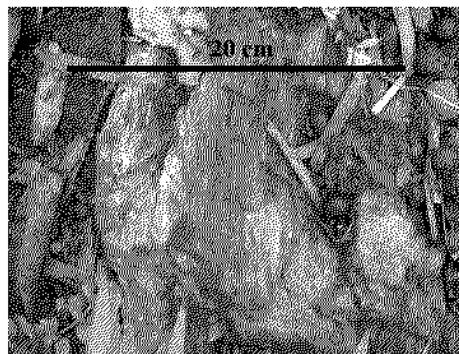
Limited stream sediment sampling revealed elevated copper values (suggesting possible extensions to the known mineralisation) which requires further investigation. These areas will be included in the geochem program designed for the project.

The author took a series of 5 samples at the site of a recently dug water well at the base of the North West corner of the topographic high. The well had been cut through a sheared amphibolite, where copper carbonates, Malachite and Azurite, were visible, suggesting high grade copper mineralisation. The high grade lithologies containing the copper carbonates occur parallel the NE trending schistosity. Samples collected by the author from the well site assayed up to 10.5 % Copper. See **table 2** below.

The photos below show the high grade copper carbonate mineralisation, (blue, green coloration) from the well site and appear to fit within the envelope of NW trending mineralisation. The width of the mineralising envelope ranges from 100 to 400m and provides an excellent target for further investigation.



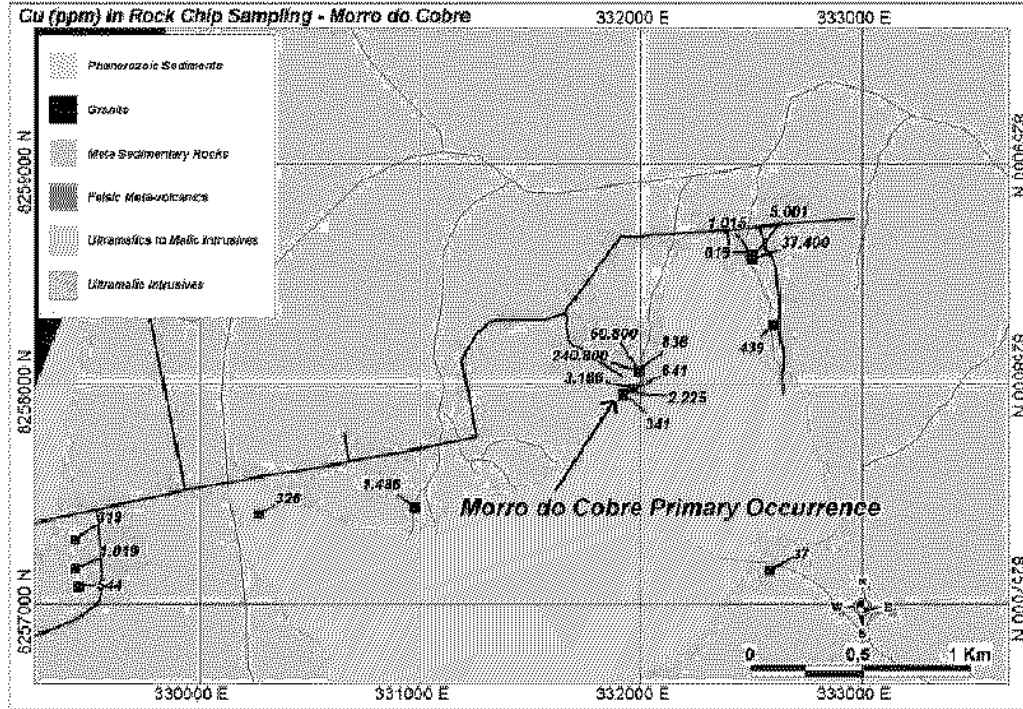
Copper Carbonates (blue) XC %Cu



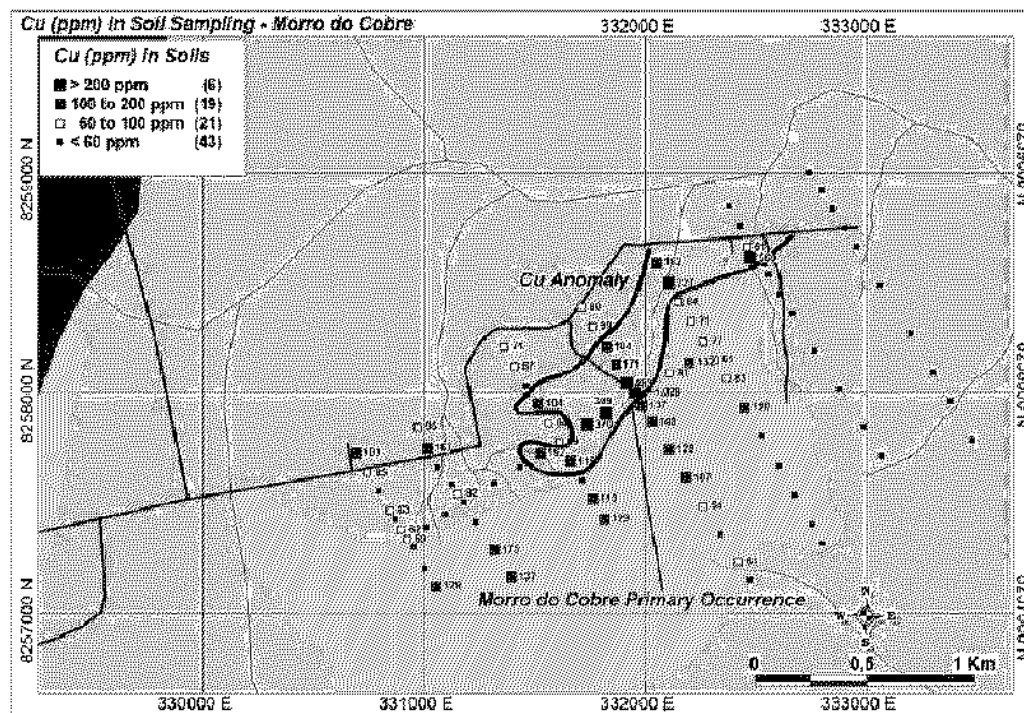
Insitu high grade Copper (blue tint) in Schist

Sample ID	Cu ppm	Cu %
MT-AG-RO-RE-MDC-01	> 5000	10.5
Yet of the MT-AG-RO-RE-MDC-01	> 5000	10.2
MT-AG-RO-RE-MDC-02	> 5000	7.6
MT-AG-RO-RE-MDC-03	> 5000	7.8
MT-AG-RO-RE-MDC-04	821	---
MT-AG-RO-RE-MDC-05	> 5000	9.3

Table 2 – rock samples from well site



Recent rock chip sampling, Cu results in ppm



Copper in soils, Cu results in ppm

2.5 Summary and Conclusions

The Morro Do Cobre project is located within the Alto Jauru greenstone belt in the western part of the state of Mato Grosso in Brazil. The Alto Jauru greenstone belt has proven to host significant mineralisation with the BP Mineracao Cabaçal Gold-Copper deposit, near Araputanga, along with a host of smaller deposits mined by local artisans.

Visual copper mineralisation has been noted at several locations within the project area, though exploration has been minimal. The strike extent, favorable structures and host lithologies make the Morro Do Cobre project a prime target for further exploration.

2.6 Proposed Exploration and Expenditure

Carnavale intends to commit up to approximately \$1,146,000 in the first 2 years in an effort to delineate a Cu-Au resource at the Morro do Cobre Project. Initially Carnavale intends to complete a literature review of the previous work, followed by follow up photo interpretation and mapping of the areas of known mineralisation. Extensions to the previous soil-sampling grid with infill over the anomalous zones will be conducted simultaneously with ground geophysics culminating in a first pass-drilling program of all anomalous areas.

The company intends to follow up all soil anomalies with drilling, and intends to initiate drilling early in 2007.

Proposed Exploration Activities					
\$3m raised			\$4m raised		
Activity	Year 1	Year 2	Activity	Year 1	Year 2
Geophysics	\$10,000	\$10,000	Geophysics	\$20,000	\$20,000
Geochemistry	\$40,000	\$12,500	Geochemistry	\$70,000	\$37,500
Geology	\$100,000	\$100,000	Geology	\$100,000	\$100,000
Drilling	\$125,000	\$125,000	Drilling	\$312,000	\$250,500
Office	\$10,000	\$10,000	Office	\$10,000	\$10,000
Vehicle	\$25,000	\$5,000	Vehicle	\$25,000	\$5,000
Data Management	\$18,000	\$18,000	Data Management	\$18,000	\$18,000
Administration	\$75,000	\$75,000	Administration	\$75,000	\$75,000
	\$403,000	\$355,500		\$630,000	\$516,000
2 year expenditure total		\$758,500	2 year expenditure total		\$1,146,000

3. THE TOUCANAS PROJECT

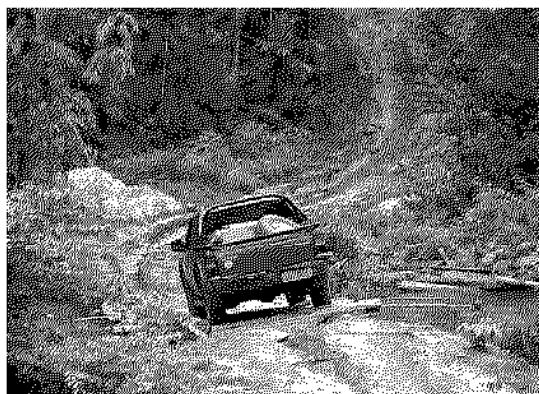
3.1 Introduction

The Toucanas Gold Project (**Toucanas**) is situated in the southern portion of the Tapajós gold province and is made up of two separate titles which together cover an area of 4,000 Ha. The first is titled to Nivaldo Gomes de Oliveira registered at the DNPM under license Nº 851.062/2005 and the second to Valderson Poquivique de Oliveira with DNPM process number Nº 850.356/2006.

The Tapajós gold province forms part of the Amazon Craton and has produced approximately 600 metric tonnes of gold in the past 40 years. The region is a major magmatic province and contains more than 100 gold deposits and occurrences, generally hosted in granitoids of different paleo-proterozoic ages and affinities, as well as by gneisses, felsic to intermediate volcanics and minor gabbroic and metavolcanic-sedimentary rocks. Most of the deposits are gold bearing quartz veins, with stockworks and disseminations occurring to a lesser extent.

Toucanas is located in the Jacaré River basin, on a tributary on the west side of the Tapajós River. The project is located in the Northeast corner of the Carta Geológica Folha Vila Mamãe Anã - SB.21-V-D Scale 1:250.000 map sheet.

Access to Toucanas is via the BR-230 (Trans Amazon Highway) for a distance 220 km South West from the regional centre of Itaituba, then 19 km North West along roads cut for logging trucks during the 1990's.

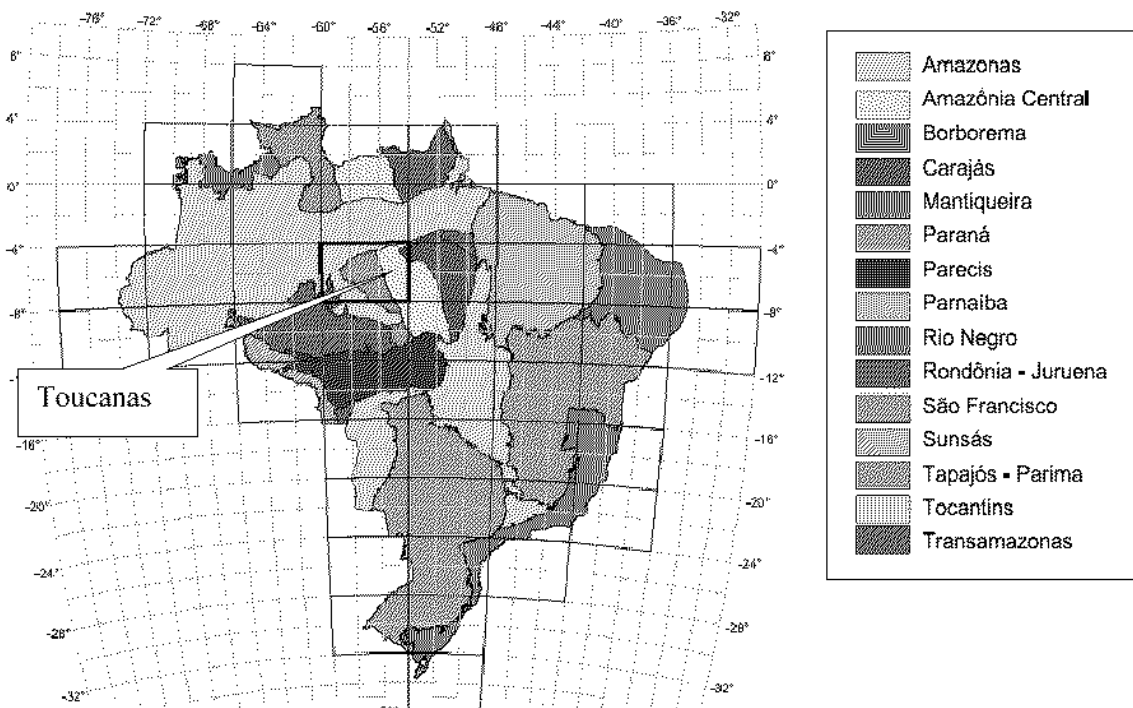


Access to Toucanas Project

The project area was selected as a potential host for primary gold mineralisation in the Tapajós gold province. The lithology of the project area is dominated by rocks of the Parauri intrusive suite, a series of granites, which host many other gold occurrences elsewhere in the Tapajós gold province. Currently the project has been the focus of artisanal small scale alluvial and near surface quartz vein mining. The dominant mining technique is water cannon and sluice and is restricted to the highly weathered surface material and upper saprolite. Locally a series of shallow shafts have been excavated to the base of the saprolite following high-grade quartz veins.

3.2 Regional Geology

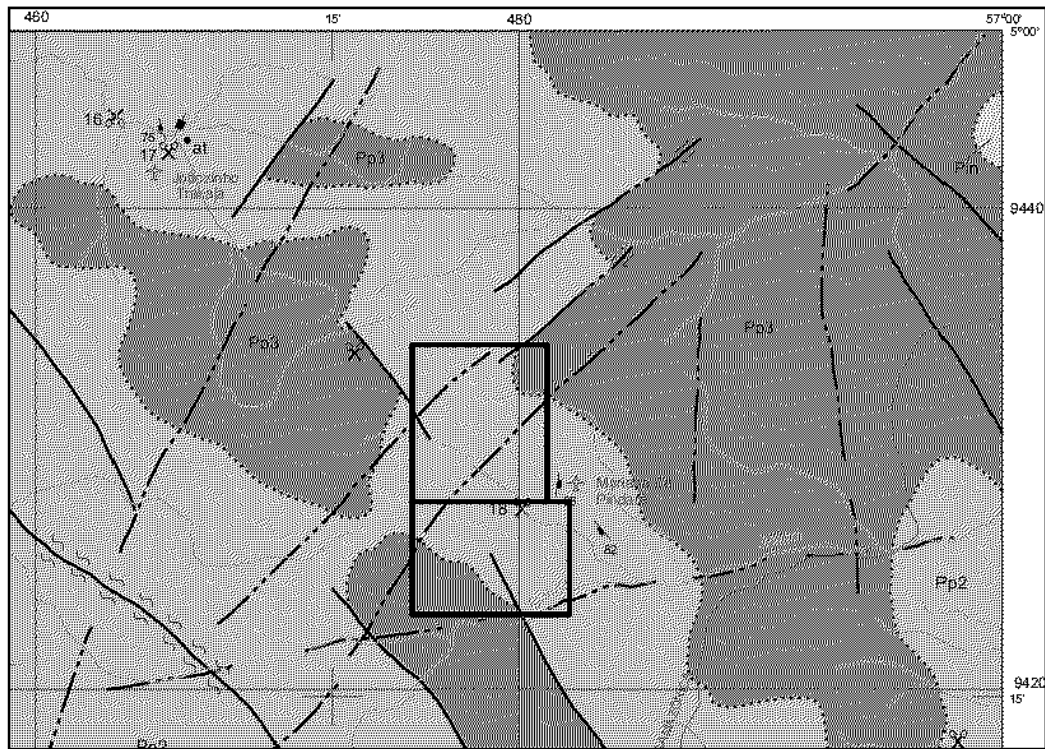
The southern part of the Tapajós gold province is located in the southern section of the Amazonia Central structural province. This region of Northern Brazil contains a series of gold projects and occurrences typically hosted in orogenic gneisses of the Cuiu-Cuiu Complex and granites of the Parauri and Creporizao Intrusive Suites.



Structural Provinces of Brazil

Vein quartz mineralisation in the southern Tapajós gold province is hosted by arc related, calc-alkaline, tonalitic, ortho gneisses (Cuiu-Cuiu complex 2005-2030 Ma) and post collision calc-alkaline K-rich granitoids (Crepelizao Intrusive Suite 1965 Ma, Tropas Intrusive Suite 1907-1898 Ma and the Parauari Intrusive Suite 1883 Ma).

The deposits are structurally controlled and form typically tabular bodies that parallel the hosting structures, and are characterised by quartz veins surrounded by halos of strongly altered wall rock, which are usually narrow and show weak to prominent ductile fabric. Steeply dipping fault fill veins and shear veins represent 80% of the structural style, followed by breccia veins and rarer stock works and veins hosted in low angle reverse-oblique faults. Hosting structures vary from ductile-brittle to brittle in nature and together with structural and textural evidence provided by the veins, indicate a wide range of depth of emplacement, for the mineralisation from shallow to mid crustal. Quartz and sericite are the main alteration minerals commonly associated with pyrite.



Project locality map



Project locations



Pp2

Pp2 - Facies granitic: predominantly (biotite) - monzogranite, with subordinate biotite- (hornblend)-granodiorite and hornblend-biotitamonzogranite and rare (chlorite)-hornblend-monzogranite, (chlorite)-monzogranite, (muscovite)-biotite- granodiorite, (muscovite)-biotitamonzogranite, microclinic-granite, sienogranites, tonalites, microtonalite and micromonzogranites granofirices. These possess enclaves of diorite and/or quartz diorite.



Pp3

Pp3 - Facies granitic to titanite: predominantly (diotite) monzogranite and (hornblend)-biotite-monzogranite, with rare cloudy-chlorite monzogranite, biotite granodiorite and sienogranite

3.3 Project Geology

Granites and Granodiorites of the Parauari Intrusiva Suite dominate the project geology. This unit represents the most extensive plutonism in the Metalogenetic Province of the Tapajos gold province and is locally intersected by volcanic rocks and tuffs of the Iri Group. The whole complex is then cut by a series of brittle to, brittle-ductile shears.

Primary mineralization is noted in milky quartz veins with widths up to 30cm. Generally the bulk of the veinlets are approximately 10cm enclosed in saprolite associated with the Parauari Intrusive Suite. Locally there are a series of later Aplite dykes intrusions trending approximately North South. Gold is generally associated with quartz veins having elevated sulphide content, generally pyrite with lessor chalcopyrite.

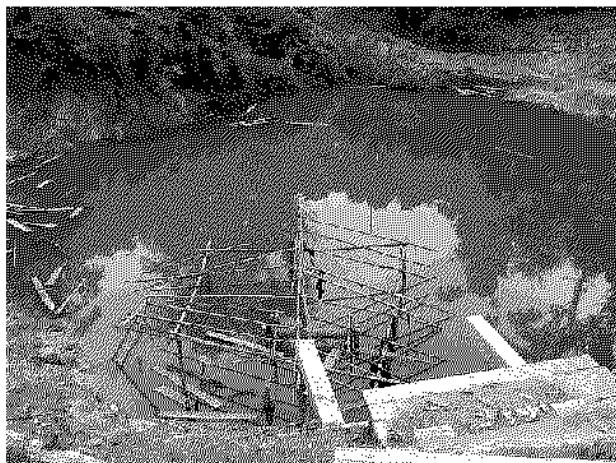
3.4 Previous Exploration

No formal exploration has been carried out on the Toucanas Project, though the project has been worked by artisanal mining activity for an unspecified period. Based on visual evidence, on and around current activity, it appears the area has been mined intermittently for several decades.

Mining methods are dominated by water cannon and sluice, taking advantage of the tertiary sediments in the topographic lows. Mining of quartz veins down to the base of the saprolite has shown the area to be cut by numerous quartz veins up to 0.3m in width.

Carnavale intends to focus exploration on the series of artisanal pits, resulting from the water cannon and sluice-mining activities, as generally these operations targeted auriferous veins and stockworks. Discussions with the artisans confirm that vein systems occur in North-to-Northwest orientations, similar to other mineralised trends in

other areas of the region. Initial exploration will focus on two sites of previous activity, the Oliveira target and the Gilvan target, discussed below.



Abandoned water cannon and sluice operation – Oliveira target.

The Oliveira target is a primary gold occurrence, located in the South Eastern part of the Toucanas project area. This area was originally an area of intense artisanal activity with both water cannon with sluice and quartz vein mining taking place. The primary vein width varies along the northerly strike from approximately 10cm to 30 cm, though there are several thinner sub parallel vein sets. The veins are hosted in granitic saprolite, and rarely the sulphides are partially preserved as large pyrite aggregates with box works attached. Previous workers mined this down to the base of the saprolite by trench style stopes.

The lithology of the Oliveira target is a series of veinlets of milky and hyaline quartz encased in a Granodiorite. The vein has attitude of N20° / 70NW with a width of 20cm, with occasional visible sulphides and mineralised evidence from numerous box work structures after sulphides. The rocks also exhibit hydrothermal and propylitic alteration accompanied by silicification.

The Gilvan target area is located approximately 1.5km North of the Oliveira target and is defined by high concentrations of veinlets and fragments in a colluvium. This colluvium was mined by water cannon and then sieved through a locally termed "rock separator" located at the mouth of the sluice. Only the coarse fraction rocks, were treated to recover gold often allegedly producing "bonanza grades" (this has not been verified by the writer).

The coarse fraction is described as pieces of quartz vein material, with box work structures after sulphides, encased in reddish brown clay. It is assumed the colluvium is located at a topographic low close to the source of the insitu veins and altered hosting wall rocks and Carnavale intends to test the enclosing topographic highs to locate the source of mineralisation.

A total of 13 samples were collected to test the various lithologies encountered in the mineralised areas investigated, including representations of the altered wall rocks. All samples were sent to Lakefield ALS laboratories for analysis and results are presented in the table 2 below. Results demonstrate the areas are highly mineralised and warrant methodical investigation.

Sample N°	Au (ppb) AA/FA	CO-ORDINATES UTM		Obs:
		East	North	
ER - 5002	774	478763	9428844	Propylitic alt
ER - 5003	678	478763	9428844	Gilvan area
ER - 5004	669	478763	9428844	Veinlets
ER - 5005	4.948	478677	9428765	Veinlets
ER - 5006	6	478677	9428765	Veinlets
ER - 5007	12.297	479709	9430416	Gilvan area
ER - 5008	560	479709	9430416	Gilvan area
ER - 5009	14.382	479268	9430698	Vein material
ER - 5010	2.058	479268	9430698	Vein wall rock
ER - 5011	4.449	479268	9430698	Rejects
ER - 5012	257	478978	9430218	Granite
ER - 5013	8.848	478978	9430218	Vein material
ER - 5014	17.732	478978	9430218	Vein material

Table 2 – Samples of various lithologies from Toucanas

3.5 Proposed Exploration and Expenditure

Carnavale intends to commit up to approximately \$1,198,000 in the first 2 years in an effort to delineate a gold resource over the Toucanas project.

Initially Carnavale intends to focus on the Oliviera and the Gilvan targets. Mapping and trenching will define the type of mineralisation, and outline any potential for extensions both laterally and along strike.

Simultaneously the company will review the total license area and prepare for a first pass soil geochemistry campaign. Geophysical data sets will be aquired and interpreted, then combined with the results of the geochemistry in preparation for target generation for drill testing.

Proposed Exploration Activities					
\$3m Raised			\$4m raised		
Activity	Year 1	Year 2	Activity	Year 1	Year 2
Geophysics	\$10,000	\$10,000	Geophysics	\$10,000	\$10,000
Geochemistry	\$21,250	\$12,500	Geochemistry	\$75,000	\$50,000
Geology	\$100,000	\$100,000	Geology	\$100,000	\$100,000
Drilling	\$112,750	\$75,500	Drilling	\$312,000	\$313,000
Office	\$6,000	\$6,000	Office	\$6,000	\$6,000
vehicle	\$25,000	\$5,000	vehicle	\$25,000	\$5,000
Data Management	\$18,000	\$18,000	Data Management	\$18,000	\$18,000
Administration	\$75,000	\$75,000	Administration	\$75,000	\$75,000
	\$368,000	\$302,000		\$621,000	\$577,000
2 year expenditure total		\$670,000	2 year expenditure total		\$1,198,000

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Glossary of Terms

Anomalous	Outlining a zone of potential exploration interest but not necessarily of commercial significance.
Arc	A generally curved linear belt of volcanoes above a subduction zone, and the volcanic and plutonic rocks formed there.
Archaean	The oldest rocks of the Precambrian Era, prior to 2500 million years.
Biotite	Common rock forming mica mineral, dark coloured rich in iron magnesium and potassium.
Chalcopyrite	A copper-iron sulphide mineral, an important ore of copper, CuFeS_2 .
Conglomerate	Sedimentary rock formed by the cementing together of rounded water-worn pebbles, distinct from breccia.
Craton	A relatively immobile part of the earth, generally of large size.
Differentiated	A rock derived from magma by gravity separation as by sinking of heavy crystals of liquids or by the rising of a light phase (crystals, liquids or gases).
Dolerite	A medium grained intrusive rock mainly composed of feldspar and pyroxene.
Epithermal	Deposit formed in and along cracks and fissures in rocks by deposition at shallow depths of ascending hot solutions.
Extrusive	Magmatic material poured out or ejected at the earth's surface.
Facies	Pertaining to the depositional environment, as evidenced by rock, mineral, or fossil content.
Fault	A fracture in rocks on which there has been movement on one of the sides relative to the other, parallel to the fracture.
Feldspar	A group of abundant rock-forming aluminous silicate minerals containing potassium, sodium, calcium or barium.
Felsic	Descriptive of an igneous rock, which is predominantly of light-colored minerals (antonym: of mafic).
Geochemistry	Study of variation of chemical elements in rocks or soils.
Grab sample	Sample of rock or sediment taken more or less indiscriminately at any place.
Grade	Average quality of ore or metal in a specified quantity of rock.
Granite	A coarse grained igneous rock consisting essentially of quartz and more alkali feldspar than plagioclase.
Granitoid	A general field term for coarse-grained rocks containing quartz and feldspars.
Greenstone belt	Elongated belts in Precambrian terrain characterised by major zones of altered or metamorphosed basic igneous rocks.
Igneous	Formed by solidification from a molten or partly molten state.
Intermediate	Igneous rocks whose composition is intermediate between acid and mafic rocks.
Intrusive	Having, while in a fluid state, been injected into the earth's crust and solidifying before reaching the surface.
JORC	Joint Ore Reserves Committee- Australasian Code for Reporting of Identified Resources and Ore Reserves.
Laterite	A red, residual soil, cemented in place, containing iron and aluminum oxides but leached of quartz.
Lithology	Composition and texture of rock.
Ma	Geological time nomenclature for millions of years before present.
Mafic	A loosely used group-name for silicate minerals that are rich in iron and magnesium, and for rocks in which these minerals are abundant.
Malachite	A green copper carbonate mineral, $\text{Cu}_2(\text{CO}_3)(\text{OH})_2$.
Massive Sulphides	A mass of rock exceeding 40% sulphide minerals.
Metamorphism	The mineralogical, structural and chemical changes induced within solid rocks through the actions of heat, pressure or the introduction of new chemicals. Rocks so altered are prefixed "meta" as in "metabasalt".
Metasediment	Sedimentary rocks that have been recrystallised by metamorphism.
Metasomatism	The process by which one mineral is replaced by another of different chemical composition owing to reactions set up by the introduction of material from external sources.
Mica	A group of minerals consisting of phyllosilicates with sheetlike structures. $(\text{K}, \text{Na}, \text{Ca})(\text{Mg}, \text{Fe}, \text{Li}, \text{Al})_2\text{-}3(\text{Al}, \text{Si})_4\text{O}_{10}(\text{OH}, \text{F})_2$.
Mineral Resource	A tonnage or volume of rock or mineralisation of economic interest.
Mineralisation	In economic geology, the introduction of valuable elements into a rock body.

Ore	A mixture of minerals, host rock and waste material which is expected to be mineable at a profit.
Orebody	A continuous, well-defined mass of economic ore.
Outcrop	The surface expression of a rock layer (verb: to crop out).
Porphyry	A rock with conspicuous crystals in a fine-grained ground mass.
Primary	Mineralisation which has not been affected by near-surface mineralisation oxidising process.
Proterozoic	The geological age after Archaean, approximately 570 to 2400 million years ago.
Propylitic	Propylitic alteration is usually found in the outer zones of epithermal gold and copper porphyry deposits.
Pyrite	A mineral compound of iron and sulphur, FeS ₂ "Fools Gold"
Pyroclastic	A fragment of volcanic rock, resulting from explosive activity or eruption.
Quartz	A very common mineral composed of silicon dioxide-SiO ₂ .
Quartzite	A metamorphic rock composed almost entirely of quartz.
Recent	Geological age from about 20,000 years ago to present (synonym: Holocene).
Reconnaissance	A general examination or survey of a region with reference to its main features, usually as a preliminary to a more detailed survey.
Sand	Unconsolidated sediment formed by fragments between 0.06 and 2.0mm in diameter.
Schist	A type of metamorphic rock with a platy, foliated or laminated texture.
Sediment	Rocks formed by the deposition of solids from water.
Shear (zone)	A zone in which shearing has occurred on a large scale so that the rock is crushed and brecciated.
Silica	Silicon dioxide, SiO ₂ (cf. Quartz)
Silicified	Containing a high proportion of silicon dioxide.
Siltstone	A very fine-grained clastic rock composed predominantly of silt sized particles.
Soil sampling	Systematic collection of soil samples at a series of different locations in order to study the distribution of soil geochemical values.
Stratigraphy	The succession of superimposition of rock strata. Composition, sequence and correlation of stratified rock in the earth's crust.
Strike	The direction or bearing of the outcrop of an inclined bed or structure on a level surface.
Suite	A collection of rocks of a single kind.
Sulphide	A group of minerals in which one or more metals is found in combination with sulphur.
Tectonic	Relating to structural features.
Tuff (aceous)	A compacted pyroclastic rock of cemented volcanic ash.
Ultramafic rocks	Igneous rocks with very high magnesium and iron content containing less than 45% silicon dioxide.
Vein	A narrow intrusive mineral body.
Volcanic	Relating to the eruption of a volcano.
Volcanogenic	Derived from volcanic activity.

CHEMICAL SYMBOLS		ABBREVIATIONS		UNITS OF CONCENTRATION	
Ag	Silver	g	gram	ppb	parts per billion
Au	Gold	g/t	grams per tonne	ppm	parts per million
Ni	Nickel	Ha	hectare		
Pb	Lead	kg	kilogram		
Zn	Zinc	km	kilometre		
		km²	square kilometre		
		m	metre		
		m²	square metre		
		t	tonne		
		oz	troy ounce, equivalent to 31.1035g.		

0701 CAR012
LDJ/MAM

15 January 2007

The Directors
Carnavale Resources Limited
30 Ledger Road
BALCATTWA WA 6021

Dear Sirs

INDEPENDENT ACCOUNTANT'S REPORT

INTRODUCTION

This independent accountant's report ("Report") has been prepared for inclusion in a prospectus to be dated on or about 15 January 2007 ("Prospectus") for the issue by Carnavale Resources Limited ("Carnavale" or "Company") of 20,000,000 ordinary shares at an issue price of 20 cents each, to raise \$4,000,000 before the expenses of the issue.

This Report has been included in the Prospectus to assist potential investors and their financial advisers in making an assessment of the financial position of the Company.

STRUCTURE OF REPORT

This Report has been divided into the following sections:

1. Background information;
2. Scope of report;
3. Historical financial information;
4. Subsequent events;
5. Statements; and
6. Declaration.

1. BACKGROUND INFORMATION

The Company was registered on 28 April 2006.

The Company has raised \$470,000 up to the date of this Prospectus via the issue of ordinary shares to promoters and seed capital investors. These funds have been utilised to prepare the Company for listing and to advance funds to its Brazilian subsidiaries in order that those subsidiaries are able to meet initial amounts due under agreements to acquire mineral rights in Brazil and to commence initial exploration work on areas covering those rights.

HLB Mann Judd (WA Partnership)
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Email: hlb@mjwa.com.au. Website: <http://www.hlb.com.au>
Partners: Ian H Barston, Terry M Blenkinsop, Lita Christodoulou, Wayne M Clark, Lucio Di Girolando, Colin D Emmott, Trevor G Roddy, Norman G Neill, Peter J Speechley

HLB Mann Judd (WA Partnership) is a member of  International and the HLB Mann Judd National Association of independent accounting firms

As set out in the Solicitors' Report in Section 9 of this Prospectus, Carnavale's Brazilian subsidiaries have entered into agreements for the purchase of mineral rights as follows:

a) Morro Do Cobre Agreement

One of the Company's 100% owned Brazilian subsidiaries, Carnaval Recursos Minerais E Mineração Do Brasil Ltda ("CRB") entered into an "Agreement for the Purchase of Mineral Rights and Other Covenants" dated 31 July 2006 with Brazil Americas Investments & Participation Mineração Ltda (a Brazilian company) (BAIL) and Antonio Rodrigues Ferraz Filho (Filho) to acquire from BAIL an 80% interest in the Morro do Cobre mineral rights contained in claim number 866,025/2006. Consideration for the acquisition is US\$1,000,000 (\$A1,282,051 using an exchange rate of \$A1 = \$US0.78 at the date of this Prospectus) in staged payments up to 27 April 2009, as set out in the Solicitors' Report in Section 9 of this Prospectus. The Solicitors' Report also sets out other conditions contained in the agreement including the ability of CRB to withdraw from the agreement at any time upon payment to BAIL of US\$1,000; the ability of CRB to acquire the remaining 20% interest in the mineral rights by payment of US\$1,000,000; and CRB paying BAIL a 1% net smelter royalty on minerals produced from the area of the mineral rights following payment of the consideration for the initial 80% interest (CRB has the option to acquire this royalty for US\$1,000,000).

b) Toucanas Agreement

The Company's other 100% owned Brazilian subsidiary, Carnavale Resources Mineração Ltda ("CRM") entered into an "Agreement for the Purchase of Mineral Rights and Other Covenants" dated 10 November 2006 with Nivaldo Gomes De Oliveira and Valderson Poquivique De Oliveira (De Oliveira) to acquire from De Oliveira a 100% interest in the Toucanas mineral rights contained in claim numbers 851,062/2005 and 850,356/2006. Consideration for the acquisition is US\$618,000 (\$A792,308 using an exchange rate of \$A1 = \$US0.78 at the date of this Prospectus) in staged payments up to 1 March 2011, as set out in the Solicitors' Report in Section 9 of this Prospectus. The Solicitors' Report also sets out other conditions contained in the agreement including the ability of CRM to withdraw from the agreement at any time and CRM paying De Oliveira a 1.5% net smelter royalty on minerals produced from the area of the mineral rights following payment of the consideration (CRM has the option to acquire this royalty for US\$1,000,000).

HLB Mann Judd was appointed as the Company's auditors effective as at the date of the Company's registration, 28 April 2006.

As at the date of this Prospectus, the issued share capital of the Company is \$470,000, comprising 24,050,003 fully paid ordinary shares.

We understand that the funds raised by the issue of shares under this Prospectus will be applied as follows:

- Fund the amounts due pursuant to the Brazilian mineral rights acquisition agreements;
- Fund the Company's exploration programme as set out in Section 3 of this Prospectus;
- Provide funds for the administration of the Company; and
- Pay the costs of the issue.

2. SCOPE OF REPORT

You have requested HLB Mann Judd ("HLB") to prepare this Report presenting the following information:

- a) the Historical Financial Information, comprising the historical consolidated Balance Sheet as at 30 November 2006 and the historical consolidated Income Statement, Statement of Changes in Equity and Cash Flow Statement for the period from registration on 28 April 2006 to 30 November 2006 as set out in Appendix 1 to this Report; and
- b) the Proforma Financial Information comprising the proforma consolidated Balance Sheet as at 30 November 2006 and the proforma consolidated Statement of Changes in Equity and Cash Flow Statement for the period then ended on the basis that the Company is successful in raising \$4,000,000 under this Prospectus.

This Report also sets out the financial effects if the Company only raises the minimum subscription of \$3,000,000.

The Directors have prepared and are responsible for the historical and proforma information. We disclaim any responsibility for any reliance on this report or on the financial information to which it relates for any purposes other than that for which it was prepared. This report should be read in conjunction with the full Prospectus.

We have performed a review of the historical financial information and the proforma information of the Company as at 30 November 2006 in order to ensure consistency in the application of applicable Accounting Standards and other mandatory professional reporting requirements.

Our review of the historical financial information and the proforma information of the Company was carried out in accordance with Australian Auditing Standard AUS 902 "Review of Financial Reports" and included such enquiries and procedures which we considered necessary for the purposes of this Report. The review procedures undertaken by HLB in our role as Independent Accountants were substantially less in scope than that of an audit examination conducted in accordance with generally accepted auditing standards. Our review was limited primarily to an examination of the historical financial information and the proforma information, analytical review procedures and discussions with senior management. A review of this nature provides less assurance than an audit and, accordingly, this Report does not express an audit opinion on the Historical Financial Information and Proforma Financial Information included in this Report or elsewhere in this Prospectus.

In relation to the information presented in this Report:

- i) support by another person, corporation or an unrelated entity has not been assumed;
- ii) the amounts shown in respect of assets do not purport to be the amounts that would have been realised if the assets were sold at the date of this Report; and
- iii) the going concern basis of accounting has been adopted.

3. HISTORICAL FINANCIAL INFORMATION

Set out in Appendix 1 (attached) are:

- i) The consolidated Balance Sheet of the Company as at 30 November 2006, and the consolidated Income Statement, Statement of Changes in Equity and Cash Flow Statement for the period then ended;
- ii) The proforma consolidated Balance Sheet of the Company as at 30 November 2006 and proforma consolidated Statement of Changes in Equity and Cash Flow Statement for the period then ended as they would appear after incorporating the following significant events and proposed transactions by the Company subsequent to 30 November 2006:
 - a) the issue by the Company of a further 7,050,000 shares on 8 January 2007 to promoters and seed capital investors, raising \$165,000;
 - b) the issue by the Company pursuant to this Prospectus of 20,000,000 ordinary shares at an issue price of 20 cents each, raising \$4,000,000;
 - c) the transfer of prepaid share issue expenses of \$12,013 to Contributed Equity; and
 - d) the payment and write off to the Contributed Equity account of further Prospectus costs, not already paid or previously provided, of an estimated \$322,987 (net of GST) as follows:

	<i>Costs to 30/11/06</i>	<i>Further costs</i>	<i>Total</i>
	\$	\$	\$
Handling fees	-	200,000	200,000
Independent Geologist's Report	11,000	-	11,000
Independent Accountant's Report	-	7,500	7,500
Legal and related costs	1,013	28,987	30,000
Accounting and secretarial fees	-	15,000	15,000
Printing and postage	-	28,000	28,000
Listing, lodgement and other fees	-	43,500	43,500
	12,013	322,987	335,000

This Proforma Financial Information has been presented on the basis that the Company is successful in raising \$4,000,000 under this Prospectus and that all applications require payment of a handling fee. This Report also sets out the financial effects if the Company only raises the minimum subscription of \$3,000,000.

- iii) Notes to the historical financial information.

4. SUBSEQUENT EVENTS

In our opinion, there have been no material items, transactions or events subsequent to 30 November 2006 not otherwise disclosed in this Prospectus that have come to our attention during the course of our review that would require comment in, or adjustment to, the content of this Report or which would cause such information included in this Report to be misleading.

5. STATEMENTS

Based on our review, which was not an audit, we have not become aware of any matter that causes us to believe that:

- i) the Historical Financial Information of Carnavale Resources Limited as at 30 November 2006 as set out in Appendix 1 of this Report, does not present fairly the financial position of the Company as at that date in accordance with the measurement and recognition requirements (but not all of the disclosure requirements) of applicable Accounting Standards and other mandatory reporting requirements in Australia and its performance as represented by its results of its operations and its cash flows for the period from registration to 30 November 2006; and
- ii) the Proforma Financial Information of Carnavale Resources Limited as at 30 November 2006 as set out in Appendix 1 of this Report, does not present fairly the financial position of the Company as at that date in accordance with the measurement and recognition requirements (but not all of the disclosure requirements) of applicable Accounting Standards and other mandatory reporting requirements in Australia and its performance as represented by its results of its operations and its cash flows for the period from registration to 30 November 2006, as if the transactions referred to in Section 3 (ii) of this Report had occurred during that period.

6. DECLARATION

- HLB will be paid its usual professional fees based on time involvement, for the preparation of this Report and review of the financial information, at our normal professional rates (expected to be \$7,500). HLB has received no amounts since registration.
- Apart from the aforementioned fee, neither HLB, nor any of its associates will receive any other benefits, either directly or indirectly, for or in connection with the preparation of this Report.
- Neither HLB, nor any of its employees or associated persons has any interest in Carnavale Resources Limited or the promotion of the Company.

6. *DECLARATION (CONTINUED)*

- Unless specifically referred to in this Report, or elsewhere in this Prospectus, HLB was not involved in the preparation of any other part of this Prospectus and did not cause the issue of any other part of this Prospectus. Accordingly, HLB makes no representations or warranties as to the completeness or accuracy of the information contained in any other part of this Prospectus.
- HLB has consented to the inclusion of this Report in this Prospectus in the form and context in which it appears. The inclusion of this Report should not be taken as an endorsement of the Company or a recommendation by HLB of any participation in the Company by an intending subscriber.

Yours faithfully
HLB MANN JUDD



L Di GIALONARDO
Partner

- APPENDIX 1 -

**CARNAVALE RESOURCES LIMITED
CONSOLIDATED BALANCE SHEET
AS AT 30 NOVEMBER 2006**

	<i>Notes</i>	<i>Reviewed</i> \$	<i>Proforma</i> \$
CURRENT ASSETS			
Cash assets	2	90,504	3,932,517
Receivables		256	256
Prepaid share issue expenses		12,013	-
TOTAL CURRENT ASSETS		102,773	3,932,773
NON-CURRENT ASSETS			
Exploration and evaluation expenditure	3	217,147	217,147
Property, plant and equipment		7,259	7,259
TOTAL NON-CURRENT ASSETS		224,406	224,406
TOTAL ASSETS		327,179	4,157,179
CURRENT LIABILITIES			
Payables		101,863	101,863
TOTAL CURRENT LIABILITIES		101,863	101,863
TOTAL LIABILITIES		101,863	101,863
NET ASSETS		225,316	4,055,316
EQUITY			
Contributed equity	4	305,000	4,135,000
Reserves	5	(7,468)	(7,468)
Accumulated losses		(72,216)	(72,216)
TOTAL EQUITY		225,316	4,055,316

This balance sheet should be read in conjunction with the accompanying notes.

**CARNAVALE RESOURCES LIMITED
CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD 28 APRIL 2006 TO 30 NOVEMBER 2006**

	<i>Reviewed</i> \$
Revenue from ordinary activities (interest received)	1,284
Formation expenses written off	(1,120)
Consulting fees	(40,000)
Travel expenses	(13,390)
Other expenses from ordinary activities	(18,990)
	(72,216)
Loss from ordinary activities before income tax	(72,216)
Income tax expense relating to ordinary activities	-
	(72,216)
Loss from ordinary activities after income tax expense	(72,216)

This statement should be read in conjunction with the accompanying notes.

**CARNAVALE RESOURCES LIMITED
CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIOD 28 APRIL 2006 TO 30 NOVEMBER 2006**

	<i>Reviewed</i> \$	<i>Proforma</i> \$
<i>Cash Flows From Operating Activities</i>		
Payments to suppliers	(40,899)	(40,899)
Interest received	1,284	1,284
	(39,615)	(39,615)
<i>Net Cash Used In Operating Activities</i>		
<i>Cash Flows From Investing Activities</i>		
Purchase of property, plant & equipment	(7,259)	(7,259)
Formation costs	(1,120)	(1,120)
Exploration and evaluation expenditure	(158,021)	(158,021)
	(166,400)	(166,400)
<i>Net Cash Provided By Investing Activities</i>		
<i>Cash Flows From Financing Activities</i>		
Cash proceeds from issue of shares	305,000	4,470,000
Prospectus and share issue costs	(1,013)	(324,000)
	303,987	4,146,000
<i>Net Cash Provided By Financing Activities</i>		
<i>Net Increase In Cash Held</i>	97,972	3,939,985
Cash at the beginning of the financial period	-	-
Exchange rate adjustments	(7,468)	(7,468)
	90,504	3,932,517
<i>Cash At The End Of The Financial Period</i>	90,504	3,932,517

This statement should be read in conjunction with the accompanying notes.

**CARNAVALE RESOURCES LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD 28 APRIL 2006 TO 30 NOVEMBER 2006**

	<i>Contributed Equity</i> \$	<i>Reserves</i> \$	<i>Accumulated Losses</i> \$	<i>Total Equity</i> \$
Issue of promoter and seed capital shares	305,000	-	-	305,000
Adjustments from translation of foreign subsidiaries	-	(7,468)	-	(7,468)
Loss for the period	-	-	(72,216)	(72,216)
As at 30 November 2006	305,000	(7,468)	(72,216)	225,316
Issue of further promoter and seed capital shares	165,000	-	-	165,000
Issue of shares pursuant to Prospectus	4,000,000	-	-	4,000,000
Share issue expenses	(335,000)	-	-	(335,000)
Proforma total as at 30 November 2006	4,135,000	(7,468)	(72,216)	4,055,316

This statement should be read in conjunction with the accompanying notes.

**CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD 28 APRIL 2006 TO 30 NOVEMBER 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies which have been adopted in the preparation of the historical and proforma financial information reported under Australian Equivalents to International Financial Reporting Standards ("AIFRS") are shown below:

Basis of Accounting

The financial statements have been prepared in accordance with the measurement requirements (but not all of the disclosure requirements) of applicable Accounting Standards and other mandatory professional reporting requirements in Australia using the accrual basis of accounting, including the historical cost convention.

Statement of Compliance

The financial information complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the financial information, comprising the financial statements and notes thereto, comply with International Financial Reporting Standards.

Cash

Cash on hand and in banks and short-term deposits are stated at nominal value.

For the purposes of the Cash Flow Statement, cash includes cash on hand and in banks and money market investments readily convertible to cash within 2 working days, net of outstanding bank overdrafts.

Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office ("ATO"). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from or payable to the ATO is included as a current asset or liability in the Balance Sheet.

Cash flows are included in the Cash Flow Statement on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from or payable to the ATO are classified as operating cash flows.

**CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD 28 APRIL 2006 TO 30 NOVEMBER 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax

Deferred income tax is provided for on all temporary differences at balance date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the Income Statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law. The carrying amount of deferred tax assets is reviewed at each balance date and only recognised to the extent that sufficient future assessable income is expected to be obtained.

Recoverable Amount

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is the present value of the future cash flows expected to be derived from the asset or cash generating unit. In estimating value in use, a pre-tax discount rate is used which reflects current market assessments of the time value of money and the risks specific to the asset.

Exploration, Evaluation and Development Expenditure

Exploration, evaluation and development expenditure in relation to separate areas of interest for which rights of tenure are current, are capitalised in the period in which they are incurred and are carried at cost less accumulated impairment losses. The cost of acquisition of an area of interest and exploration expenditure relating to that area of interest are carried forward as an asset in the Balance Sheet so long as the following conditions are satisfied:

- (i) the rights to tenure of the area of interest are current; and

**CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD 28 APRIL 2006 TO 30 NOVEMBER 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Exploration, Evaluation and Development Expenditure (continued)

(ii) at least one of the following conditions is also met:

- the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation expenditure is assessed for impairment when facts and circumstances suggest that their carrying amount exceeds their recoverable amount and where this is the case an impairment loss is recognised. Should a project or an area of interest be abandoned, the expenditure will be written off in the period in which the decision is made.

Once an area of interest enters a production phase, all capitalised expenditure in relation to that area of interest is transferred to Development Expenditure within Property, Plant and Equipment in the Balance Sheet. Capitalised Development Expenditure is amortised from the commencement of production on a unit of production basis over recoverable reserves. Recoverable reserves are subject to review annually.

Payables

Trade payables and other accounts payable are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services. Amounts are unsecured and are usually paid within 30 days of recognition.

Share Based Payment Transactions

The Company may provide benefits to employees (including Directors and senior executives) of the Company in future in the form of share-based payment transactions. The cost of these equity-settled transactions (options) with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined using the Black and Scholes Option Pricing Model.

The cost of equity-settled transactions (options) is recognised (in the majority of cases as an expense in the Income Statement), together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award of the options ("vesting date").

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired and the number of awards of options that, in the opinion of the Directors of the Company, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

**CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD 28 APRIL 2006 TO 30 NOVEMBER 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributed Equity

Issued capital is recognised at the fair value of the consideration received by the Company.

Transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Proforma Transactions

The proforma consolidated Balance Sheet, Statement of Changes in Equity and Cash Flow Statement have been derived from the historical financial information as at 30 November 2006 adjusted to give effect to the following significant events and proposed transactions by the Company subsequent to 30 November 2006:

- a) the issue by the Company of a further 7,050,000 shares on 8 January 2007 to promoter and seed capital investors, raising \$165,000;
- b) the issue by the Company pursuant to this Prospectus of 20,000,000 ordinary shares at an issue price of 20 cents each, raising \$4,000,000;
- c) the transfer of prepaid share issue expenses of \$12,013 to Contributed Equity; and
- d) the payment and write off to the Contributed Equity account of further Prospectus costs, not already paid or previously provided, of an estimated \$322,987 (net of GST).

The Proforma Financial Information has been presented on the basis that the Company is successful in raising \$4,000,000 under this Prospectus.

If the Company is only able to raise the minimum subscription of \$3,000,000, the proforma cash balance will initially decrease to \$2,932,517 with a corresponding decrease in Contributed Equity. In this case, Prospectus costs will reduce by approximately \$55,000 (from the level incurred by the \$4 million capital raising).

	<i>Reviewed</i> \$	<i>Proforma</i> \$
2. CASH		
Balance as at 30 November 2006	90,504	90,504
Issue of further promoter and seed capital shares	-	165,000
Shares issued pursuant to this Prospectus	-	4,000,000
Share issue costs	-	(322,987)
	90,504	3,932,517
	90,504	3,932,517

**CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD 28 APRIL 2006 TO 30 NOVEMBER 2006**

	<i>Reviewed</i> \$	<i>Proforma</i> \$
3. EXPLORATION AND EVALUATION EXPENDITURE		
Balance as at 30 November 2006	217,147	217,147

Ultimate recoupment of this expenditure is dependent upon the continuation of the Company's right to tenure of the areas of interest and the discovery of commercially viable reserves, their successful development and exploitation, or, alternatively, sale of the respective areas of interest at an amount at least equal to book value.

4. CONTRIBUTED EQUITY

Issued and paid up share capital

Shares issued:

Issue of promoter and seed capital shares	305,000	470,000
Shares issued pursuant to this Prospectus	-	4,000,000
Share issue costs	-	(335,000)
Balance at end of period	305,000	4,135,000

Movements in the number of fully paid ordinary shares since registration:

	<i>Number</i>	<i>\$</i>
Balance as at 30 November 2006 (promoter and seed capital shares)	17,000,003	305,000
Shares issued subsequent to 30 November 2006	7,050,000	165,000
Shares to be issued pursuant to this Prospectus	20,000,000	4,000,000
Proforma balance (excludes share issue costs)	44,050,003	4,470,000

	<i>Reviewed</i> \$	<i>Proforma</i> \$
5. RESERVES		
<i>Foreign Currency Translation Reserve:</i>		
Adjustments from translation of foreign subsidiaries	(7,468)	(7,468)

**CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD 28 APRIL 2006 TO 30 NOVEMBER 2006**

6. CONTINGENCIES AND COMMITMENTS

The Directors are not aware of any contingencies at the date of this Report.

As set out in the Solicitors' Report in Section 9 of this Prospectus, Carnavale's two 100% owned Brazilian subsidiaries have entered into "Agreements for the Purchase of Mineral Rights and Other Covenants" to acquire certain mineral rights in Brazil. These agreements require Carnavale's subsidiaries to pay the consideration for these mineral rights in instalments as set out in the Solicitors' Report. All amounts due and payable up to the date of this Prospectus have been paid.

7. RELATED PARTY TRANSACTIONS

The Directors of Carnavale Resources Limited at the date of this Report are Mr Adam Sierakowski, Mr Hans Biener, Mr Ron Gajewski and Mr Peter Christie.

Details of Directors' interests in the Company's issued capital and transactions with the Company are included in Section 11 of this Prospectus.

9. SOLICITOR'S REPORT

Rick Cullen
Ed Babington
Michael Hughes
John Byrne *Notary Public*
Catriona Macleod *Senior Associate*

Incorporating the practice of John W Byrne
229 Stirling Highway
Claremont WA 6010
Telephone 9284 5522
Facsimile 9284 5588
Our reference: EB: 02185
11 January 2007

The Directors
Carnavale Resources Limited
30 Ledger Road
Balcatta WA 6021

Dear Sirs

Solicitors Report

This Report has been prepared for inclusion in a prospectus to be issued by Carnavale Resources Limited (**Company** or **Carnavale**) dated on or about 15 January 2007 offering for subscription up to 20,000,000 fully paid ordinary shares at an issue price of 20 cents per share (**Offer**) to raise up to \$4,000,000.00 before the costs of the Offer.

Carnavale operates in the Federative Republic of Brazil through subsidiary companies as follows:

- 1) the 100% owned Carnavale Resources Mineracao Ltda (**CRM**); and
- 2) the 100% owned Carnaval Recursos Minerais E Mineracao Do Brasil Ltda (**CRB**).

1. CONTENT

This Report relates to:

- (a) contracts and agreements entered into by:
 - (i) the Company or a subsidiary and other parties; and
 - (ii) parties other than the Company or a subsidiary,
relevant to the mining tenements, leases, concessions and licences in which the Company or a subsidiary has an interest as set out in Schedule 1 to this Report;
- (b) mining tenements, leases, concessions and licences:
 - (iii) issued to the Company or its subsidiaries; or
 - (iv) in which the Company or a subsidiary has a contractual interest,
in Brazil collectively referred to in this report as **Mining Properties** as set out in Schedule 2 to this Report; and
- (c) A brief summary of the laws applying to the Mining Properties in Brazil set out in Schedule 3 to this Report.

The Schedules form part of this Report.

2. TITLE SEARCHES

We have caused to be conducted searches of the registers and records maintained in Brazil by the National Mineral Production Department (**DNPM**) on or about 10 November 2006, 12 December 2006 and 19 December 2006 in relation to the Mining Properties.

As a result of those searches, and subject to the statements set out in this Report, we are satisfied that the information and particulars included in this Report in relation to the Mining Properties are an accurate statement of the status of the Mining Properties at the date the searches were conducted.

The searches reveal that as at the date of this Report:

- (a) the Company or one of its subsidiaries has not lodged applications in their own name for mining tenements in Brazil; and
- (b) the named party is the registered applicant or holder of the respective Mining Properties as set out in Schedule 2.

3. MATERIAL CONTRACTS

We have reviewed the material contracts provided to us to which the Company (or one of its subsidiaries) is a party which relates to the rights and obligations of the Company (or one of its subsidiaries) in respect of:

- (a) a sale and purchase agreement in respect of the Morro do Cobre project; and
- (b) a sale and purchase agreement in respect of the Toucanas project, in Brazil.

Agreements in respect of the Mining Properties are the **Material Contracts** and are set out in Schedule 1.

We are satisfied as a result of our review of the Material Contracts that, except as set out in this Report or the schedule, none of the Mining Properties are subject to any unusual conditions of a material nature.

4. SCOPE OF INVESTIGATION

For the purposes of this Report, our enquiries have been limited to:

- (a) engaging lawyers in Brazil to:
 - (i) review publicly available records;
 - (ii) review the Material Contracts relating to Brazil; and
 - (iii) advise on mining law and other related legislation in Brazil; and
- (b) reviewing copies of the Material Contracts relating to Brazil.

5. SCOPE OF OPINION

This Report:

- (a) relates only to the laws in force at the date of this Report which relate to the claiming, grant, operation and tenure of the Mining Properties or interests in other mining properties of Brazil; and
- (b) is strictly limited to the matters it deals with and does not extend, by implication or otherwise, to any other matter.

6. ASSUMPTIONS

For the purpose of giving this Report, we have assumed:

- (a) that the information provided to us by the Company is correct and up to date as at 8 January 2007;
- (b) that the information provided to us by the lawyers we engaged in Brazil is correct and up to date as at 8 January 2007;

- (c) that where a document has been submitted to us translated into English that the translation is correct;
- (d) that where a document has been submitted to us in draft form or as a pro forma document it will be signed or executed in that form;
- (e) the authenticity of all signatures, seals and dates, and of any stamp duty endorsement or marking;
- (f) that any unstamped documents have been or will be stamped if required;
- (g) the completeness, and conformity to originals, of all copies of documents submitted to us;
- (h) that each of the Material Contracts provided to us is within the capacity and powers of, and has been validly authorised, sealed, executed and delivered by and is binding on, all of the parties to it; that it continues in full force and effect; and that all conditions, covenants and obligations contained in it have been complied with or otherwise discharged or will be duly complied with, discharged or satisfied where the contract is executory;
- (i) that all of the Mining Properties have been validly applied for and (where applicable) granted or renewed by the relevant Minister or government authority. The good standing of the Mining Properties and the holders' interests in the Mining Properties are both subject to the holders continuing to comply with the terms and conditions of the Mining Properties under the provisions of Brazilian law.

As set out at Schedule 3 the system of application, grant and tenure of mining interests in Brazil is different in both substance and detail from the system which applies in Australia. This report does not purport to set out all aspects of those laws as they apply to mining properties in Brazil and does not purport to be an exhaustive review of all laws that may apply to the Company or its subsidiaries in Brazil;

- (j) that the relevant Minister or other government authority exercising powers under Brazilian law has been validly appointed and has acted within the scope of their respective powers, authorities and discretions in respect of the Mining Properties and in registering, authorising, approving or granting any permission or consent in relation to any dealing or proposed dealing affecting the Mining Properties;
- (k) an exchange rate of \$1.00 to 1.667 Brazilian Real (R); and
- (l) the accuracy and completeness of any instructions and information we have received from the Company and any of its directors, officers, employees, agents or representatives.

The making of the above assumptions indicates that we have assumed that each matter the subject of those assumptions is true, correct and complete in every particular. That we have made an assumption in this Report does not imply that we have made any enquiry to verify that assumption or that we are not aware of any circumstances which might affect the correctness of the assumption. No assumption specified is limited by reference to any other assumption.

7. QUALIFICATIONS

This Report is subject to the following qualifications:

- (a) we have only made the enquiries described in section 4 above;
- (b) the nature and enforcement of obligations under a Material Contract may be affected by the discretion of courts to grant or withhold relief by way of injunction, specific performance or other equitable remedy, by statute of limitation, by estoppel and similar principles, by laws concerning insolvency, bankruptcy, liquidation, receivership, administration or reorganisation, and by other laws affecting creditors' rights generally. These vary from country to country;
- (c) any documents which are required to be stamped but have not been duly stamped may not be admissible in evidence in any relevant enforcement proceedings;
- (d) to the extent that any opinion or conclusion is based on our review of a Material Contract, that opinion or conclusion is subject to any subsequent amendment, variation or termination of the Material Contract of which we have not, as at the date of this Report, been advised;

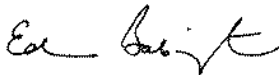
- (e) there may be equitable or other interests in existence affecting the Mining Properties which for various reasons are not discoverable by search or enquiry but which may be enforceable against a holder of any interest in the Mining Properties;
- (f) we do not express any opinion as to, and made no investigation of, the laws of Brazil applying to the right of the Company or its subsidiaries to carry on business in Brazil;
- (g) we do not express any opinion as to, and have made no investigation of, the laws of any jurisdiction other than Western Australia and the Commonwealth of Australia other than as set out at sections 2 and 3 above; and
- (h) further approvals may be required before activities can be carried out in relation to a particular Mining Property. We express no opinion as to whether the Company's activities are likely to require such approvals and, if they do, whether the approvals will be forthcoming.

8. RESPONSIBILITY STATEMENT AND CONSENT

Except for this Report (including the Schedules) Cullen Babington Hughes Pty Ltd has not been involved in the preparation of any part of the Prospectus.

In accordance with section 716 of the Corporations Act, Cullen Babington Hughes Pty Ltd has given and has not, before the lodgement of the Prospectus with the Australian Securities and Investments Commission, withdrawn its consent to the inclusion of this Report in the Prospectus in the form and context in which it is included.

Yours faithfully



Edmund Babington
Cullen Babington Hughes
ebabington@cbhlegal.com.au

SCHEDULE 1

MATERIAL CONTRACTS

1. MORRO DO COBRE AGREEMENT

1.1 Parties

By an "Agreement For The Purchase Of Mineral Rights and Other Covenants" dated 31 July 2006 made between Brazil Americas Investments & Participation Mineração Ltda (a Brazilian company) (**BAIL**), Antonio Rodrigues Ferraz Filho (**Filho**) and CRB (**MDC Sale Agreement**) CRB agreed to acquire from BAIL an 80% interest in the Morro do Cobre mineral rights contained in claim number 866,025/2006.

1.2 Material Terms

The material terms of the MDC Sale Agreement are:

- (a) CRB is to pay to BAIL a total of US\$1,000,000 as follows:
 - (i) US\$10,000.00 on signing the MDC Sale Agreement, receipt of which has been acknowledged;
 - (ii) US\$20,000.00 by 27 October 2006, receipt of which has been acknowledged;
 - (iii) US\$40,000.00 by 27 April 2007;
 - (iv) US\$80,000.00 by 27 October 2007;
 - (v) US\$150,000.00 by 27 April 2008;
 - (vi) US\$200,000.00 by 27 October 2008; and
 - (vii) US\$500,000.00 on or before 27 April 2009;
- (b) Filho acknowledges that he has sold to BAIL a 100% interest in the exploration licence;
- (c) CRB has an option to acquire the remaining 20% interest in the mineral rights for US\$1,000,000 to be paid in Brazilian Reals subject to CRB completing a bankable feasibility study,
- (d) CRB may withdraw from the MDC Sale Agreement at any time subject to:
 - (i) payment to BAIL of US \$1,000 in full and final satisfaction of any loss or damage suffered by BAIL; and
 - (ii) the terms of issue of the mineral rights;
- (e) a 1% net smelter royalty on minerals produced from the area of the mineral rights is payable by CRB to BAIL subject to CRB acquiring the 80% interest by making the payments referred to at item 1.2(a) above. CRB has the option to acquire this royalty for US\$1,000,000 to be paid in Brazilian Reals;
- (f) CRB must provide a report on activities each six months ,
- (g) CRB is to meet all exploration costs and costs related to maintenance of the mineral rights;
- (h) the parties must keep confidential all data, information and other matters relating to the mineral rights;
- (i) the parties may assign their interest in the mineral rights subject to execution of an agreement requiring compliance with the MDC Sale Agreement.

1.3 Status

We are instructed by the Company that the required conditions to the date of the MDC Sale Agreement in item 1.2 above have been fulfilled and that no notice of breach of the MDC Sale Agreement has been issued by BAIL or Filho.

The MDC Sale Agreement was written in Portuguese and is stated to be subject to the law of Brazil.

Once CRB has acquired an 80% interest in the mineral rights, and the relevant permit in respect of the mineral rights has been issued, the mineral rights may be transferred to CRB. We can express no opinion as to when that will occur.

2. TOUCANAS AGREEMENT

2.1 Parties

By an "Agreement For The Purchase Of Mineral Rights and Other Covenants" dated 10 November 2006 made between Nivaldo Gomes De Oliveira and Valderson Poquivique De Oliveira (**De Oliveira**) and CRM (**Toucanas Sale Agreement**) CRM agreed to acquire from De Oliveira a 100% interest in the Toucanas mineral rights contained in claim numbers 851,062/2005 and 850,356/2006.

2.2 Material Terms

The material terms of the Toucanas Sale Agreement are:

- (a) CRB is to pay to De Oliveira a total of US\$600,000 and 35,000 Brazilian Reals as follows:
 - (i) US\$20,000.00 on execution of the Toucanas Sale Agreement, receipt of which has been acknowledged;
 - (ii) R35,000 Brazilian Reals by 1 March 2007;
 - (iii) US\$50,000.00 by 1 March 2008;
 - (iv) US\$50,000.00 by 1 March 2009;
 - (v) US\$80,000.00 by 1 March 2010; and
 - (vi) US\$400,000.00 by 1 March 2011,provided that if the mineral rights are not transferred to CRM by 15 March 2007 the payment referred to at item 2.2(a)(ii) is postponed until registration of the transfer is completed;
- (b) CRM may withdraw from the Toucanas Sale Agreement at any time;
- (c) a 1.5% net smelter royalty on minerals produced from the area of the mineral rights is payable by CRM to De Oliveira. CRM has the option to acquire this royalty for US\$1,000,000 to be paid in Brazilian Reals;
- (d) CRM must provide a report on activities each six months;
- (e) CRM is to meet all exploration costs and costs related to maintenance of the mineral rights;
- (f) the parties must keep confidential all data, information and other matters relating to the mineral rights;
- (g) the parties may assign their interest in the mineral rights subject to execution of an agreement requiring compliance with the Toucanas Sale Agreement.

2.3 Status

We are instructed by the Company that the required conditions to the date of the Toucanas Sale Agreement in item 2.2 above have been fulfilled and that no notice of breach of the Toucanas Sale Agreement has been issued by De Oliveira.

The Toucanas Sale Agreement was written in Portuguese and is stated to be subject to the law of Brazil.

Once the relevant permit in respect of the mineral claim 850,356/2006 has been issued the mineral rights may be transferred to CRM. We can express no opinion as to when that will occur.

3. TRUST AGREEMENT

3.1 Parties

By an agreement dated the sixth of July 2006 (**Trust Agreement**) Vera Lucia Lopez Ferraz acknowledged that she held 51% of the ownership interest in CRB on trust for the Company.

The agreement further appoints the Company's lawyer in Brazil as the attorney of the trustee to transfer the ownership interest to the Company.

3.2 Status

We are not aware of any circumstance that could give rise to a breach or invalidity of the Trust Agreement or make it unenforceable by the Company.

SCHEDULE 2

Interests in Concessions held by other parties

Concession Name And Type	Registered Holder	Maximum interest to be acquired	Application Date	Reference To Schedule 1	Notes And Encumbrances
Morro do Cobre Exploration claim 866025/2006	Filho	100%	26 January 2006	1	1
Toucanas Exploration claim 851062/2005	Nivaldo De Oliveira	100%	5 December 2005	2	2
Toucanas Exploration claim 850356/2006	Valderson De Oliveira	100%	7 June 2006	2	1

Notes:

1. The permits in respect to exploration claims 850356/2006 and 866025/2006 have not yet been issued - refer to item 2.2 of Schedule 3 of this report We can express no opinion as to when or if the permit will be issued.
2. The permit in respect to exploration claim 851062/2005 was issued on 14 December 2006. We can express no opinion as to when or if the permit will be transferred to CRM.

SCHEDULE 3

APPLICABLE LAW

1. APPLICABLE LEGISLATION

The following apply to mining activities in Brazil:

- (a) Mining Code (1967) and its Regulations (**Mining Law**);
- (b) the Constitution of Brazil and Law No. 9605 of February 1998 (**Environmental Law**).

2. SUMMARY OF THE MINING LAW

All minerals are the property of the Federal Government of Brazil. The National Mineral Production Department (**DNMP**) may grant mineral licences to Brazilian and authorised foreign companies to explore for or mine minerals.

There are 4 basic grounds under which an application may be made for a mineral licence under the Mining Law. These are:

- (b) a mining authorisation. This relates to the definition of a deposit, its evaluation and the feasibility of economic development. Authorisations (including exploration claims and subsequent permits) are granted by the National Mineral Production Department (**DNPM**);
- (a) a mining concession. This relates to the industrial development of a deposit under an ordinance of the Ministry of Mines and Energy;
- (c) a mining licence: This relates to the development of certain mineral substances used immediately for building and industrial purposes such as clay and limestone.
- (d) Garimpeira or alluvial mining. This relate to small-scale mining operations conducted under a permit granted by the DNPM.

Authorisation and concessions are applied to organised and large size mining ventures respectively aiming at:

- (i) exploration work; and
- (ii) mining of the deposit.

2.1 Land open for Mining

An area will be made available for exploration purposes if:

- (a) there is no valid application for an exploration claim;
- (b) there is no valid exploration permit or other mining concession.

2.2 Exploration Claims

Under the Mining Law, mineral exploration means the performance of the work required for defining and evaluating a deposit and determining the feasibility of its economic exploitation.

- (a) Application

In order to obtain a mineral exploration permit, the applicant must present an exploration claim to the DNPM, containing the details of the applicant, the area sought, the proposed work plan and budget and the relevant minerals.

The first applicant for an exploration claim in respect of an area is granted priority in obtaining title.

- (b) Size of Area

Exploration claims are limited to the following maximum areas:

- (i) 2,000 hectares for deposits of metals, mineral fertilizers, coal, diamonds, bituminous and pyrobituminous rocks, turf and salt-gem;
- (ii) 50 hectares for deposits of sands, gravels and grits for use in the construction industry;
- (iii) 1,000 hectares for deposits of mineral rocks and other substances not included in items (i) and (ii) above; and
- (iv) 10,000 hectares for deposits of minerals indicated in item (i) above for areas located in the *Amazônia Legal*.

(c) Duration

A mineral exploration permit for copper and gold is granted for 3 years from the date of issue. The license can be successively renewed at the discretion of the DNPM.

If the applicant has:

- (i) lodged a claim and the DNPM has registered the claim; and
- (ii) priority;

and the area is free for mining as set out above, the applicant may access the area and conduct geological evaluation work on the area of that claim subject to approval of the landowner.

(d) Obligations

The holder of an exploration permit must:

- (i) provide periodic reports and a final report to the DNPM;
- (ii) perform work only within the area specified in the authorisation;
- (iii) indemnify third parties for damage and losses caused;
- (iv) communicate to the DNPM the discovery of a mineral not included in the authorisation;
- (v) remove substances extracted from the permit area for analysis only with prior authorisation of the DNPM and in accordance with the applicable environmental legislation;
- (vi) start the work within 60 days of the date of the publication of the license in the Official Gazette of the Federal Executive;
- (vii) not interrupt the work without justification for more than 3 consecutive months or for more than 120 non-consecutive days;
- (viii) compensate the surface owner or possessor for the occupation of the land and for damage or loss caused by the work.

(e) Fees

The titleholder must pay to the DNPM an annual fee per hectare. The fee varies based upon the substance, place and size of the area.

Annual exploration fees are approximately R1.55 (approximately A\$0.93) per hectare and are payable on the last business day of July or January every year. If an exploration fee is not paid by the titleholder, the DNPM may impose a fine corresponding to R1,064.10 (approximately A\$637) per infraction. If the debt and fine are not paid the DNPM may cancel the exploration permit.

(f) Transfer

A mineral exploration permit may be assigned, totally or partially, to any person who can demonstrate that they can conduct the work under such license in accordance with the applicable legislation.

(g) Sanctions

Failure to comply with the obligations derived from exploration licences may result in warning, fines or forfeiture being imposed by the DNPM:

(h) Security of Tenure

Provided that legal requirements have been met the Mining Law guarantees that an applicant for a mineral claim will be issued the relevant exploration permit.

2.3 Utilization Bill

It is possible to extract limited amount of ore before a mining concession is granted under a "Utilization Bill" with the prior approval of the DNPM. Extraction may only occur if the tenement holder has obtained an environmental license and has entered into an agreement with the surface owner as to the extraction work.

2.4 Mining Concession

(a) Application

Application for a mining concession is made to the DNPM by the holder of an exploration permit. The application must contain details of:

- (i) the development plan; and
- (ii) finance to conduct the development.

The mining concession will not be granted if mining is considered harmful to the public or if the Government considers that it compromises interests which are more relevant than industrial exploitation. In the latter case, the holder of the exploration permit is entitled to be indemnified by the Government for exploration expenses.

(b) Requirements

The mining concession is granted when:

- (i) the area has been explored and mining is considered technically and economically feasible by the DNPM;
- (ii) the final exploration report has approved by the DNPM;
- (iii) the mining area is adequate for the extraction and processing of the deposit; and
- (iv) the competent environmental agency has issued the corresponding environmental license.

(c) Size of Area

The applicant must specify the size of the area required for mining within the area granted for exploration. The DNPM establishes the size of the mining area.

(d) Duration

The Mining Law does not establish the duration of mining concessions. The concessions remain in force until exhaustion of the deposit.

(e) Obligations

The titleholder of a mining concession must:

- (i) present a report by 15 March of each year on the activities carried out during the preceding year;
- (ii) start mining as per the development plan within 6 months from the date of the publication of the concession in the Official Gazette of the Republic;

- (iii) execute the works in accordance with the development plan approved by the DNPM;
 - (iv) extract only the substances indicated in the concession;
 - (v) communicate to the DNPM the discovery of minerals not included in the concession;
 - (vi) make good damage and loss caused to third parties resulting from the mining work;
 - (vii) provide adequate accommodation at the mine;
 - (viii) not cause diversion or drainage of water that causes loss to neighbouring properties;
 - (ix) not cause air or water pollution from the mining work;
 - (x) protect and preserve water sources;
 - (xi) observe and comply with the requirements of inspectors;
 - (xii) not interrupt the mining activities without notice to the DNPM;
 - (xiii) keep the mine in good condition when temporarily suspending mining work;
 - (xiv) restore the areas degraded by the mining work;
 - (xv) advise of the discovery of nuclear minerals.
- (f) Transfer

Mining concessions are personal titles and may be assigned, totally or partially subject to registration and approval by the DNPM.

(g) Rights

The titleholder of the mining concession:

- (i) has the exclusive right to execute the mining work for the mineral substances specified and indicated in the concession. If another substance is found in the authorized area, the titleholder may request that the new substance be included in the concession;
- (ii) may temporarily suspend mining work;
- (iii) may obtain easements on the property where the mine is located, as well as on bordering and neighbouring properties subject to an indemnity being given; and
- (iv) may divide the concession into 2 or more distinct concessions, provided that it is not harmful to the development of the deposit.

(h) Sanctions

Failure to comply with requirements may result in warning, fines or forfeiture being imposed by the DNPM: Forfeiture must be preceded by an administrative proceeding. A request for reconsideration can be made to the Executive Secretary to the Ministry of Mines and Energy against his decisions. Further appeal can be made to the President of the Republic against the decisions of the Ministry of Mines and Energy or to the courts.

(i) Security of Tenure

Once exploration work is completed and provided that the legal requirements have been met the Mining Law guarantees that the miner can obtain and maintain a mining concession in respect of the area previously the subject of an exploration permit.

After the filing of the application for the mining concession and after the approval of the mine development plan by the DNPM, the mining concession cannot be refused by the Government. Once

the mining concession has been granted and all the legal requirements and provisions duly observed, the concession cannot be cancelled.

3. ENVIRONMENTAL PROTECTION LEGISLATION

3.1 Introduction

The Brazilian Federal Constitution contains a chapter on environmental protection. The federal, state and municipal governments are empowered and obliged to defend and protect the environment.

Law No. 9605 of February 12, 1998, defines environmental crimes and infractions, as well as establishes liability and applicable sanctions. The law:

- (a) establishes high monetary penalties;
- (b) extends liability for environmental damage to directors, auditors, managers and attorneys-in-fact; and
- (c) allows a Court to disregard corporate structures if agents of the company were aware of criminal conduct and did not attempt to hinder it.

3.2 Mining Requirements

Mining is subject to:

- (a) licensing;
- (b) environment impact assessment; and
- (c) restoration of degraded areas.

Companies which carry on mining must be registered with Brazilian Environmental and Renewable Natural Resources Institute (**IBAMA**).

As both CRM and CRB conduct exploration they are not currently required to register.

3.3 Licenses

A preliminary license must be obtained prior to the mine planning stage. An Environmental Impact Assessment (**EIA**) must be executed and an Environmental Impact Report (**RIMA**) must be produced. The EIA and the RIMA must be submitted for approval by the environmental agency of the state government with a plan for recovery of degraded areas.

At the development stage, the installation license may only be obtained after an Environmental Control Plan (**PCA**) is presented to the competent environmental agency.

At the mining stage an operation license is required. It is issued by the competent environmental agency after the satisfactory implementation of the PCA.

4. COMPENSATION AND ROYALTIES

4.1 Rent, Compensation and Participation

The holder of an exploration permit must pay the surface owner or the squatter of the area subject to the exploration license, rent for occupation of the land and compensation for any damage and loss caused or that may be caused as a result of the exploration work.

The payment cannot exceed the maximum net income from the area occupied for exploration. Compensation for damage caused cannot exceed the assessed value of the property actually occupied. However, in the event the damages caused by the exploration activities should turn the land impracticable for agricultural or breeding activities, compensation may reach the assessed value of the property.

4.2 Royalties

The State and its entities are entitled to a percentage of the results of exploitation of mineral resources.

The amount of the Royalty has been set at a maximum of 3% on the net income from the sale proceeds of the mineral product obtained after the last stage of processing after deduction of certain taxes.

The following different participation percentages have been established:

- (a) gold - 1%;
- (b) aluminum, manganese, salt-gem and potassium ores - 3%;
- (c) iron, fertilizers, coal and other mineral substances - 2%;
- (d) precious stones and gems that can be polished, carbonized stones and precious metals - 0.2%.

The holder of a mining concession must pay the surface owner a percentage of the results of the mining work. The minimum percentage is fixed by law (in case of gold 0.5%) but it can be negotiated and normally is agreed in the range of 1% to 1.5%.

10. INVESTMENT CONSIDERATIONS AND RISK FACTORS

10.1 Investment Considerations

Investors wishing to subscribe for the Shares offered by this Prospectus should read the Prospectus in its entirety in order to make an informed assessment of the assets and liabilities, financial position and performance, profits and losses and prospects of the Company and the rights attaching to the Shares offered by this Prospectus.

This Section is not intended to be an exhaustive list of the considerations to be taken into account by an investor or of the risk factors to which the Company is exposed. Some of these risks can be mitigated by the use of safeguards and appropriate systems and actions, but many are outside the control of the Company and cannot be mitigated.

There are numerous risks associated with investing in any form of business and with investing in the share market in particular. All investors should consult their professional advisers if they are in doubt as to any aspect of this Prospectus or any matters relating to an investment in the Company.

10.2 General Risk Factors

The Shares offered by this Prospectus are speculative because of the nature of the business and assets of the Company. They carry no guarantee with respect to return of capital, payment of dividends or the price at which they will trade on the ASX.

There is also a range of specific risks associated with Carnavale's business and its involvement in the exploration and mining industry. These risk factors are largely beyond the control of Carnavale and its directors because of the nature of the Company's proposed business.

Carnavale is a mineral exploration company and an investment in it carries with it risks normally associated with investment in a business of this type.

Future viability and profitability of Carnavale will be dependent on a number of factors, including but not limited to the specific risks referred to below.

10.3 Mining and Exploration Risks

The primary business of Carnavale is exploration for, and commercial development of mineral ore bodies, which is subject to the significant risks inherent in these activities. Its operations are still in the exploratory phase. The current and future operations of the Company may be affected by a range of factors, including:

- start-up risks
- geological conditions
- limitations on activities due to seasonal weather patterns
- alterations to joint venture programs and budgets
- unanticipated operational and technical difficulties encountered in trenching, drilling and production activities
- mechanical failure of operating plant and equipment
- adverse weather conditions, industrial and environmental accidents, industrial disputes and other force majeure events
- unavailability of drilling equipment
- unexpected shortages or increases in the costs of consumables, spare parts, plant and equipment and labour
- prevention of access by reason of political unrest, outbreak of hostilities, inability to obtain consents or approvals
- contracting risks from third parties providing essential services.

No assurance can be given that exploration will be successful.

The ultimate success and financial viability of the Company depends on the discovery and delineation of economically recoverable ore reserves, design and construction of efficient mining and processing facilities, and competent operational and managerial performance. There is no assurance that exploration and development of the mineral interests described in this Prospectus (which are all at an exploration stage), or any other projects that may be acquired by the Company 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 profitably exploited. The markedly increased exploration and mining activity throughout the world in recent times is putting severe pressure on availability of exploration equipment and services, including human resources.

It is also dependent on the Company's ability to obtain necessary titles and governmental and other regulatory approvals.

10.4 **Changes in Government Policy**

Adverse changes in the government policies or legislation of the government of Brazil affecting taxation, profit repatriation, royalties, mining and exploration activities may affect the operations of the Company.

10.5 **Reliance on Key Personnel**

In formulating its exploration and mining programs, the Company relies to a significant extent upon the experience and expertise of key personnel. Although the key personnel have a considerable amount of experience and have previously been successful in their pursuits, there is no guarantee or assurance that they will be successful in pursuing the objectives described in this Prospectus.

10.6 **Metal Market Conditions**

The Company's ability to benefit from any future mining operations will depend on market factors, some of which may be beyond its control. The world market for copper, gold and other minerals is subject to many variables and may fluctuate markedly.

10.7 **General Economic Conditions**

Factors such as inflation, currency fluctuations, interest rates, supply and demand, industrial disruption, government policy and legislation, have an impact on operating costs, commodity prices, the parameters in which the Company may operate and stock market prices. Factors that may be beyond the control of the Company include:

- general economic conditions in Australia and Brazil and, in particular, inflation rates, interest rates, exchange rates, commodity supply and demand factors;
- financial failure or default by a participant in any joint venture or other contractual relationship to which the Company is, or may become, a party;
- insolvency or other managerial failure by any of the contractors used by the Company in its activities; and
- industrial and landholder disputes.

These as well as other conditions can affect the Company's future possible revenues and price of its securities.

10.8 **Environmental Risks**

The Company's projects are subject to various laws and regulations regarding environmental matters and the discharge of hazardous waste and materials. The Company may be required to comply from time to time with environmental management issues that arise from factors beyond its control.

10.9 **Tenement Title Risks**

Mineral licences are granted subject to various conditions including, but not limited to, expenditure conditions. Failure to comply with these conditions may expose the licences to forfeiture.

All of the licences in which the Company has an interest will be subject to application for renewal from time to time. The renewal of the term of each licence is subject to the applicable legislation in that jurisdiction. If a licence is not renewed for any reason, the Company may suffer significant damage through loss of the opportunity to develop and discover any mineral resources on that licence. However, the Directors are not aware of any reason why renewal of the term of any licences will not be granted.

10.10 **Capital Requirement Risk**

Investors should be aware that the Company will have no substantive income in the foreseeable future and must continue to fund its exploration programs through equity capital. The continued viability of the Company is therefore dependent upon:

- the success of this Issue;
- the successful raising of funds in the future; or
- the success of the Company's efforts to attract other participants, who will undertake or share all or part of the exploration expenditure.

10.11 **Share Market Risk**

Applicants should be aware that there are risks associated with any stock market investment. It is important to recognise that share prices and dividends may fall as well as rise, and the price of the Shares may trade below or above the issue price. Share prices for exploration companies are generally subject to wide fluctuations, which may be unrelated to the operating performance of the relevant company. Such fluctuations may adversely affect the market price of the Shares.

10.12 **Limited Operational History**

While the Company's management has significant experience and has previously carried out or has been exposed to exploration and production activities while employed by other companies, the Company was not incorporated until 28 April 2006. Accordingly the Company has limited historical, financial or operating history. The Company's ability to achieve its objectives depends on the ability of the Directors and staff to implement current plans and to respond to any unforeseen circumstances that require changes to those plans.

10.13 **Sovereign Risk**

The Company's projects are located in Brazil, a less-developed country with associated political, economic, legal and social risks. There is no assurance that the systems of government and the political system will remain stable and that government regulations relating to foreign investment, repatriation of foreign currency, taxation and the mining industry in Brazil will not be amended or replaced in the future to the detriment of Carnavale Resource's business and / or projects, although the Directors are unaware of any such proposals as at the date of this Prospectus. Outcomes before courts in Brazil may be less predictable than in Australia, which could affect the enforceability of contracts entered into by the Company in Brazil.

The Company has made investment and strategic decisions based on information currently available to the Directors. Should there be any material change in the political, economic, legal and social environments in Brazil, the Directors may reassess investment decisions and commitments to assets in Brazil.

10.14 **Gold Price and Exchange Rate Risk**

As the Company's potential earnings will be largely derived from the sale of gold, either in processed or concentrate forms, the Company's future revenues and cash flows will be impacted by changes in the price of gold. Gold prices fluctuate and are affected by numerous factors beyond the control of the Company. These factors include current and expected future supply and demand, forward selling by producers, production cost levels in major metal producing centres, as well as macroeconomic conditions such as inflation and interest rates.

The international price of gold is denominated in United States dollars while the Company cost base will be a mixture of United States dollars, Australian dollars, and the Brazilian Real. Consequently changes in the Australian dollar foreign exchange rate will impact on any future earnings of the Company, more so during periods of high capital expenditure (predominately denominated in United States dollars). The foreign exchange rate is affected by numerous factors beyond the control of the Company, including interest rates, inflation and the general economic outlook.

IMPORTANT DISCLAIMER AND RECOMMENDATION

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of Carnavale and the value of the Shares offered under this Prospectus.

Therefore, the Shares to be issued pursuant to this Prospectus carry no guarantee with respect to the payment of dividends, returns of capital or their market value.

Potential investors should consider that an investment in Carnavale is speculative and should consult their professional advisers before deciding whether to apply for Shares.

11. ADDITIONAL INFORMATION

11.1 Rights Attaching To Shares

The Shares offered pursuant to this Prospectus are fully paid ordinary shares in the capital of the Company and these are the only class of shares on issue in the Company at the date of this Prospectus. The rights attaching to Shares are set out in the Company's Constitution (a copy of which can be inspected at the Company's registered office during normal business hours) and are also regulated by the Corporations Act, the Listing Rules and general law. The following is a summary of the principal rights attaching to Shares:

(a) Voting Rights

At a general meeting every shareholder present in person or by proxy, attorney or representative will have on a show of hands one vote and, on a poll, one vote for each Share held.

(b) General Meetings

Each shareholder is entitled to receive notice of, and to attend and vote at, general meetings of the Company and to receive all notices, financial reports and other documents required to be furnished to shareholders under the Constitution or the Corporations Act and Listing Rules.

(c) Dividend Rights

Any dividend as declared shall be payable on all Shares in proportion to the amount of capital for the time being paid up or credited as paid up in respect of such Shares.

(d) Rights on Winding-up

On a winding-up of the Company all monies and property that are to be legally distributed among holders of Shares will be distributed in proportion to the amounts paid up (or which at the commencement of the winding-up ought to have been paid up) on those Shares compared with the total paid-up capital of the Company.

(e) Transfer of Shares

Subject to the Constitution, the Corporations Act and the SCH Business Rules, and subject to any restrictions applicable to Shares which have been designated by the ASX as "restricted securities", Shares are freely transferable.

11.2 Directors' and Experts' Interests

(a) Other than as set out in this Section 11.2 or elsewhere in this Prospectus, no:

- (i) Director;**
- (ii) person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;**
- (iii) promoter of the Company; or**
- (iv) broker or underwriter to the Issue,**

holds, or has held within 2 years before the date of this Prospectus, any interest in the Issue or in the formation or promotion of, or in any property acquired or proposed to be acquired by, the Company in connection with its formation or promotion of the Issue.

(b) Set out in Section 11.2(c) are the amounts that anyone has paid or agreed to pay and the nature and value of any benefit anyone has given or agreed to give:

- (i) to a Director to induce him to become, or to qualify him as, a director of the Company; or**
- (ii) for services provided in connection with the formation or promotion of the Company or the Issue by any Director, any person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus, any promoter of the Company, or any stockbroker or underwriter to the Issue:**

- (c) The following directors, director related entities and promoters subscribed for Shares at an issue price of 1 cent each between the date of the Company's incorporation and the date of this Prospectus as follows:
- (i) 2,500,000 Shares to Vienna Holdings Pty Ltd an entity controlled by Mr Ron Gajewski and of which he is a director;
 - (ii) 1,000,000 Shares to Corporate and Resource Consultants Pty Ltd an entity in which Mr Ron Gajewski has a 12.5% interest;
 - (iii) 750,000 Shares to IML Holdings Pty Ltd an entity controlled by Mr Adam Sierakowski;
 - (iv) 250,000 Shares to Mr Peter Christie.

The non-executive Directors are entitled to receive directors' fees as determined by the Company in general meeting. Currently, the Chairman is entitled to a fee of \$35,000 per annum and the non-executive Director is entitled to a fee of \$25,000 per annum.

Mr Gajewski receives a fee of \$5,000 per month from 1 August 2006 but subject to the Company being listed on the ASX and on the basis that he dedicates 50% of his time to Carnavale's affairs.

Mr Biener has been paid \$10,000 to date for services rendered prior to his appointment as a director. Mr Biener receives a fee of \$5,000 per month from 1 October 2006 but subject to the Company being listed on the ASX.

The Company anticipates entering into formal agreements with the executive directors after listing.

Non-executive Directors may also be remunerated for additional specialised services performed at the request of the Board. Reasonable expenses incurred by all Directors on Company business are reimbursable.

HLB Mann Judd has acted as Independent Accountant to the Issue and will be paid a fee of approximately \$7,500 for the provision of the Independent Accountant's Report contained in Section 8.

Fees paid or payable to Raylar Pty Ltd (**Raylar**) for the provision of the Independent Consulting Geologist's Report contained in Section 7 are approximately \$11,000. There are no other fees paid or payable to Raylar for services rendered since registration of the Company.

Cullen Babington Hughes Pty Ltd will be paid a fee of approximately \$15,000 for advice in relation to the Offer and this Prospectus. Professional fees paid or payable to the date of this Prospectus for other services rendered by that firm since registration of the Company are approximately \$2,000.

Corporate Consultants Pty Limited, an entity in which Mr Gajewski is a director and shareholder, provides administration, accounting and company secretarial services to the Company and has assisted with the preparation of this prospectus. Fees for prospectus preparation and all related matters have been agreed at \$15,000. Fees for administration and accounting services payable from the date of the Company's registration in April 2006 to the date of this Prospectus are approximately \$5,000.

Security Transfer Registrars Pty Ltd has been appointed as the Company's share registry and will be paid for these services on normal commercial terms.

- (d) At the date of this Prospectus, the Directors have an interest in Shares as follows:

Director	Shares
Mr Sierakowski	750,000
Mr Gajewski	3,500,000*
Mr Christie	250,000
Mr Biener	Nil

* As set out at item 11.2(c)(ii) 1,000,000 of these shares are held by an entity in which Mr Gajewski has a 12.5% interest.

11.3 Consents and Liability of Persons Named in this Prospectus

Each of the parties referred to in this Section:

- (a) does not make, or purport to make, any statement in this Prospectus, or on which a statement made in this Prospectus is based other than as specified in this section; and
- (b) to the maximum extent permitted by the law, expressly disclaims liability, and takes no responsibility, for any part of this Prospectus other than a reference to its name and a statement included in the Prospectus with the consent of that party as specified in this section.

For the purposes of section 716 of the Corporations Act, the following parties have given their written consents to the issue of this Prospectus with statements made by them, or statements said in this Prospectus to be based on statements made by them, included in the form and context in which they are included and have not withdrawn those consents before the lodgement of this Prospectus with the ASIC:

- (c) HLB Mann Judd – Independent Accountant's Report in Section 8.
- (d) Raylar Pty Ltd – Independent Consulting Geologist's Report in Section 7.
- (e) Cullen Babington Hughes Pty Ltd – Solicitors Report in Section 9.

In addition, Security Transfer Registrars Pty Ltd has consented to be named as share registrar, HLB Mann Judd has consented to be named as auditor and Cullen Babington Hughes Pty Ltd and Luis Azevedo have consented to be named as the Company's legal advisers in relation to the Offer.

These parties have not been involved in the preparation of any other part of this Prospectus.

11.4 Expenses of the Issue

The total expenses of the Issue are estimated to be as follows:

	Minimum subscription \$3 million	Maximum subscription \$4 million
Handling Fees*	150,000	200,000
Independent Accountant	7,500	7,500
Independent Consulting Geologist	11,000	11,000
Legal Fees	30,000	30,000
Accounting and secretarial fees	15,000	15,000
Printing and postage	28,000	28,000
Listing, lodgement and other fees	38,500	43,500
Total	<u>\$280,000</u>	<u>\$335,000</u>

*This assumes all Applications will require the payment of a handling fee as set out in Section 4.9.

11.5 Forecasts

Carnavale is an exploration company and for this reason there are significant uncertainties associated with forecasting future revenue and earnings. On this basis, the Directors believe that reliable forecasts cannot be prepared and accordingly have not included forecasts in this Prospectus.

11.6 Litigation

As at the date of this Prospectus, Carnavale is not engaged in any litigation and, so far as the Directors are aware, no litigation involving Carnavale is threatened.

11.7 Goods and Services Tax

All amounts stated in this Prospectus are, unless otherwise stated, exclusive of Goods and Services Tax.

11.8 Exchange Rate

The Company has assumed an exchange rate of \$1.00 to 0.75 US dollar for the purposes of calculating acquisition costs of the mineral properties.

11.9 **Taxation**

The acquisition and disposal of Shares in the Company will have tax consequences, which will differ depending on the individual financial affairs of each investor. All potential investors in the Company are urged to obtain independent financial advice about the consequences of acquiring Shares from a taxation viewpoint and generally.

To the maximum extent permitted by law, the Company, its officers and each of their respective advisors accept no liability or responsibility with respect to the taxation consequences of subscribing for Shares under this Prospectus.

11.10 **Electronic Prospectus**

If you have received this Prospectus as an electronic Prospectus, please ensure that you have received the entire Prospectus accompanied by the Application form. If you have not, please contact the Company and the Company will send you, for free, either a hard copy or a further electronic copy of the Prospectus or both. Alternatively, you may obtain a copy of the Prospectus from the Company's website at www.carnavaleresources.com.au.

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

11.11 **Terms and Conditions of Options to be offered for subscription under proposed Non-Renounceable Rights Issue**

As detailed in Section 4.10 it is proposed that all Shareholders registered on the share register of the Company at a date approximately 12 weeks after the Company's shares are granted quotation will be entitled to participate in a non-renounceable rights issue of Options on the basis of 1 Option for every 1 Share then held at an issue price of \$0.01 per Option.

A summary of the terms and conditions of the Options is as follows:

- (a) Each Option entitles the holder to acquire one fully paid ordinary share in the Company.
- (b) The Options may be exercised at any time until 30 June 2009. Each Option may be exercised by forwarding to the Company at its principal office the exercise notice, duly completed together with payment of the sum of 20 cents per Option exercised.
- (c) The Options may be transferred by an instrument (duly stamped where necessary) in the form commonly used for transfer of Options at any time until 30 June 2009. This right is subject to any restrictions on the transfer of an Option that may be imposed by ASX in circumstances where the Company is listed on ASX.
- (d) Option holders are permitted to participate in new issues of securities on the prior exercise of options in which case the Option holders are given at least 9 business days prior to and inclusive of the record date (to determine entitlements to the issue) to exercise the Option.
- (e) Shares issued on the exercise of Options will be issued not more than 14 days after receipt of a properly executed exercise notice and application moneys. Shares allotted pursuant to the exercise of an Option will rank equally with the then issued Shares. If the Company is listed on ASX it will, pursuant to the exercise of an Option, apply to ASX for Quotation of the Shares issued as a result of the exercise, in accordance with the Corporations Act and the Listing Rules.
- (f) In the event of any reconstruction (including consolidation, sub-division, reduction or return) of the issued capital of the Company, all rights of the option holder will be changed to the extent necessary to comply with the Listing Rules applying to the reconstruction of capital at the time of the reconstruction.
- (g) If there is a bonus issue to shareholders, the number of Shares over which the Option is exercisable may be increased by the number of Shares which the holder of the Option would have received if the Option had been exercised before the record date for the bonus issue.

- (h) In the event that a pro rata issue (except a bonus issue) is made to the holders of the underlying securities in the Company, the exercise price of the Options may be reduced in accordance with Listing Rule 6.22.

11.12 **Directors' Consents**

In accordance with Section 720 of the Corporations Act, each Director has consented in writing to the lodgement of this Prospectus with the ASIC.

Dated 15 January 2007

Signed for and on behalf of Carnavale Resources Limited

by Adam Sierakowski

Chairman

12. GLOSSARY OF DEFINED TERMS

In this Prospectus:

Application means an application for the Shares offered by this Prospectus and made on an Application Form.

Application Form means the application forms enclosed with and forming part of this Prospectus for use by investors.

ASIC means Australian Securities and Investments Commission.

ASX means ASX Limited (ABN 98 008 624 691).

Board means the board of directors of the Company from time to time.

Business day has the meaning ascribed to it in the Listing Rules.

Closing Date means 23 February 2007 (subject to the right of the Directors to extend this date without notice).

Company or **Carnavale** means Carnavale Resources Limited (ACN 119 450 243).

Constitution means the constitution of the Company.

Corporations Act means the Corporations Act 2001 (Commonwealth).

CRB means Carnaval Recursos Minerais E Mineração Do Brasil Ltda a company incorporated in Brazil.

CRM means Carnavale Resources Mineração Ltda a company incorporated in Brazil.

Directors mean the directors of the Company at the date of issue of this Prospectus.

Exposure Period means in accordance with Section 727(3) of the Corporations Act, the period of 7 days (which may be extended by ASIC to up to 14 days) following lodgement of the Prospectus with ASIC during which the Company must not process Applications.

Issue means the issue of Shares under this Prospectus.

Listing Rules means the Official Listing Rules of ASX.

Offer means the offer of 20,000,000 Shares at 20 cents each under this Prospectus.

Official List means the official list of ASX.

Official Quotation means quotation on the Official List of ASX.

Option means an option to subscribe for a Share.

Prospectus means this prospectus dated 15 January 2007.

SCH Business Rules means the Securities Clearing House Business Rules and any other rules of ASX Settlement and Transfer Corporation Pty Limited which apply while the Company is an issuer of CHES- approved securities, each as amended or replaced from time to time.

Shares means fully paid ordinary shares in the capital of the Company.

WST means the time in Perth, Western Australia.

References in this Prospectus to Sections are to sections of this Prospectus.

References in this Prospectus to \$ or cents are to the currency of Australia unless stated otherwise.

CARNAVALE RESOURCES LIMITED

ACN 119 450 243

Registered Office: 30 Ledger Road, Balcatta, Western Australia, 6021**Share Registry:** Security Transfer Registrars Pty Ltd, 770 Canning Highway, Applecross 6153 Western Australia

This form must not be handed on unless accompanied by the Prospectus.

PLEASE USE BLOCK LETTERS

A 1 I/We apply for 2..Shares and lodge in full application monies of 20 \$
cents per Share

All cheques or bank drafts must be drawn on an Australian bank in Australian dollars made payable to "**Carnavale Resources Limited**" and crossed "Not Negotiable".

B Complete Full Name	Title	Given Name(s)	Surname (or Company Name and ACN)	
Applicant (1)				
Joint Applicant (2)				
Account Designation				

C Complete Address Details				
Number and Street				
Suburb or City		State	Postcode	Country

D Telephone and email Details		
Home ()	Work ()	Contact Name
Email address:	@	

E CHESS Details (if applicable)

PID	HIN
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F Cheque Details

Drawer	Bank	Branch (BSB)	Amount of cheque \$
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I/We declare that this application is completed according to the declarations/appropriate statements on the reverse of this form and agree to be bound by the Constitution of Carnavale Resources Limited and I/We further agree to take any number of Shares equal to or less than the number applied for.

LODGE YOUR APPLICATION FORM AS SOON AS POSSIBLE.

NOTE: RETURN OF THIS APPLICATION FORM WITH YOUR CHEQUE OR BANK DRAFT FOR THE APPLICATION MONIES WILL CONSTITUTE YOUR OFFER TO SUBSCRIBE FOR SHARES IN THE COMPANY. NO SIGNATURE IS REQUIRED. YOU SHOULD READ THE PROSPECTUS BEFORE COMPLETING THIS APPLICATION FORM.

PLEASE COMPLETE FRONT

How to Apply for Shares

Please complete all relevant sections of the Application Form using BLOCK LETTERS. If you have any questions on how to complete this Application Form please telephone the Company Secretary, Mr Paul Jurman on (61 8) 9240 6876. Please post or deliver the completed Application Form together with your cheque to the address listed below:

In Person:	By Post
Security Transfer Registrars Pty Ltd 770 Canning Highway Applecross 6153 Western Australia	Security Transfer Registrars Pty Ltd 770 Canning Highway Applecross 6153 Western Australia

Completed Application Forms and cheques must be received by no later than 5.00 pm (WST) on 23 February 2007. The Application Form does not need to be signed.

A1 Insert the NUMBER OF SHARES you wish to apply for in Box A. A ready reckoner of amounts payable for different numbers of Shares applied for is as follows:

Number of Shares	Amount	Number of Shares	Amount
10,000	\$2,000	100,000	\$20,000
20,000	\$4,000	200,000	\$40,000
50,000	\$10,000	500,000	\$100,000

A2 Insert the amount of your APPLICATION MONIES in Box A. The amount must be equal to the number of Shares applied for (as in Box A) multiplied by 20 cents per Share.

B Write your FULL NAME in Box B. If your application form is not completed correctly, or if the accompanying payment is for the wrong amount, it may still be treated as valid. Any decision as to whether to treat your application as valid, and how to construe, amend or complete it, shall be final. You will not however, be treated as having offered to subscribe for more Shares than is indicated by the amount of the accompanying cheque for the application monies referred to in Box A.

Correct Forms of Registrable Title

Note that only legal entities are allowed to hold Shares. The Application must be in the name(s) of a natural person(s), companies or other legal entities acceptable to Carnavale Resources Limited. At least one full given name and the surname are required for each natural person. The name of the beneficiary or any other non-registrable name may be included by the way of an account designation if completed exactly as described in the examples of correct forms of registrable titles below.

Type of Investor	Correct Form of Registrable Title	Incorrect Form of Registrable Title
Trusts	Mr John David Smith (Smith Family Account)	John Smith Family Account
Deceased Estates	Mr John David Smith (Michael Smith Account)	Michael Smith (Deceased)
Partnerships	Mr John David Smith and Mr Michael Peter Smith (John Smith & Son Account)	John Smith & Son
Clubs/Unincorporated Bodies	Mr John David Smith (Smith Investment Club Account)	Smith Investment Club
Superannuation Funds	John Smith Pty Ltd (Superannuation Fund Account)	John Smith Pty Ltd Superannuation fund

- C Enter your POSTAL ADDRESS for all correspondence in Box C. All communications to you from the Company's share registry (shareholding statements, annual/interim reports, correspondence, etc) will be mailed to the person(s) and address as shown in Box C.
- D Enter details of contact person, telephone number and email address to assist if any enquiries need to be made by the Company or the share registry in Box D.
- E The Company participates in the CHESS System. If you are a participant in the CHESS System insert your HIN ("Holder Identification Number") and/or PID ("Participant Identifier").
- F Complete cheque details as required in Box F. Insert TOTAL AMOUNT of your cheque(s) or bank drafts in Box F. Cheques or bank drafts must be drawn on an Australian bank in Australian currency and made payable to "CARNAVALE RESOURCES LIMITED" and crossed "NOT NEGOTIABLE". Do not send cash. No receipts will be issued.

Privacy

Please refer to Section 4.11 for details about collection, holding and use of your personal information. If you do not provide the information required on this form, we may not be able to accept or process your application.