



25 May 2007

The Manager
ASX Ltd
Level 4, 20 Bridge Street
Sydney, NSW 2000

Dear Sir

Carnavale Resources signs Letter of Intent for acquisition of 100% interest in a high grade Molybdenum project in Brazil

Highlights:

- **Carnavale to acquire Molybdenum project by payment of US\$4m and the issue of 1,000,000 fully paid ordinary shares to Metal Land**
- **Project covers all the historical mining leases which have reported grades of 0.4% Molybdenum)**
- **Project Area has the potential for further significant discoveries along strike and at depth.**
- **On completing due diligence Carnavale will commence an aggressive drilling program at the project to define the extent and depth of the high grade mineralized skarn.**

Newly-listed Australian based resources company Carnavale Resources Limited ("**Carnavale**") has signed a binding Letter of Intent with Metal Land Capital Brasil Mineracao Ltda ("**Metal Land**") to acquire 100% ownership of the Frei Martinho Molybdenum Project in Brazil, South America.

The Frei Martinho Molybdenum Project (**FMM**) is located in the Paraiba State of Brazil, an area known for historical molybdenum mining leases and has a combined area of 1,996 hectares. (See project background)

On completion of due diligence, Carnavale will commence exploration at the **FMM** project by carrying out an extensive diamond drilling program to define the extent and depth of the high grade mineralized skarn.

Under the terms of the agreement, Carnavale will pay US\$4m and issue 1,000,000 fully paid ordinary shares to Metal Land after meeting a series of milestones including the completion of due diligence, the calculation of a JORC reserve as defined by a completed bankable feasibility study and the commencement of mining at the project.

The FMM project is situated in an area well known for historical molybdenum mining and has never been explored using modern mining technology. The company is excited about the potential of the high-grade project and believes the market price for molybdenum will deliver strong value to shareholders as the project moves forward.

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About the Frei Martinho Molybdenum Project

The Frei Martinho Molybdenum Project (**FMM**) is located in the Paraíba State of Brazil. The **FMM** prospect has a combined area of 1,996 hectares, consisting of historical mining leases.

The project area occupies the eastern flank of the Timbauba Hill structure. The core of the structure is underlain by muscovite quartzites of the Ecuador Formation. Immediately above the quartzite, there occurs a persistent skarn¹ horizon, which has been locally mined for its scheelite (tungsten) mineralisation.

The **FMM** mineralization is developed in a skarn zone 400m stratigraphically above the scheelite-bearing skarn. The **FMM** skarn zone has a strike extent of approximately 1.6km and a width of up to 3m.

This **FMM** skarn is host to two previously exploited molybdenum (Mo) mines, the Luis and the Timbauda de Cima. The Luis Mine was worked by means of shallow pits and a 25m long decline. The skarn varies in width from 20cm to 2m.

The Timbauda de Cima has been mined by means of a 100 metre long shallow pit to a depth of 10m. A 60m long decline followed the skarn down dip.

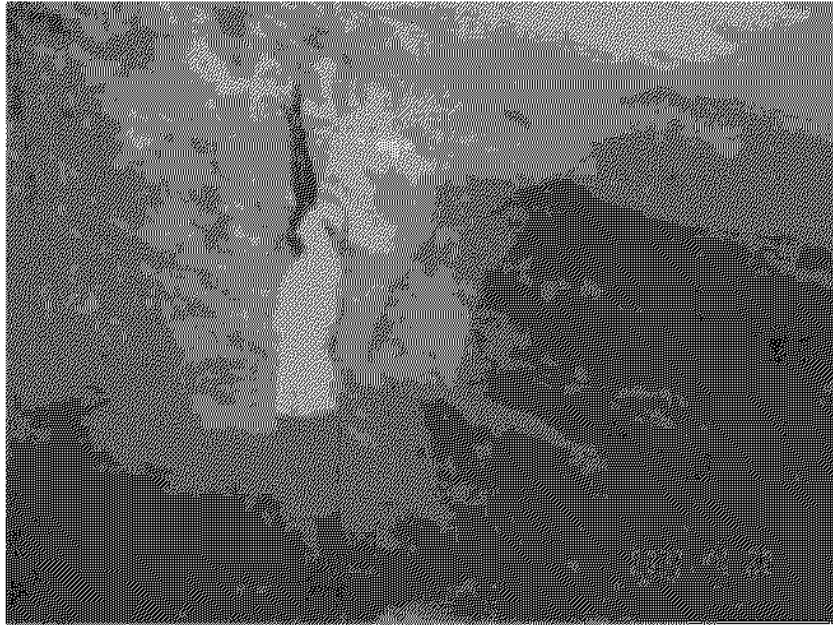
The molybdenum mineralisation occurs predominantly as disseminated fine-grained flakes but massive blocks sometimes weighing 200kg have been encountered. These blocks of massive molybdenum occur in zones of quartz-plagioclase enrichment and follow the local plunge.

The fine-grained molybdenum was concentrated by floatation and the coarser mineralisation was hand picked. The Geological Survey of Brazil report an average grade for the Timbauba prospect of 0.4% Mo. The hand picked high grade blocks would have added to this total.



Centimetric molybdenite crystals developed in quartz-plagioclase rich zone

¹ Skarn is rock composed nearly entirely of lime-bearing silicates



Upper skarn horizon exposed in a shaft

Proposed Exploration programme

On completion of a successful technical and legal due diligence, **Carnavale** intends to explore the **FMM** project by carrying out an extensive diamond drilling programme in order to define the extent and depth of the high grade mineralized skarn.

Terms of the Agreement

Under the terms of the Letter of Intent **Carnavale** has paid Metal Land US\$20,000.00 and has thirty days to carry out technical and legal due diligence on the Projects before entering into a definitive agreement expanding on the Letter of Intent. Assuming the successful completion of due diligence and the execution of a definitive agreement, **Carnavale** will pay Metal Land US\$50,000.

In addition to this **Carnavale** will also make instalment payments to Metal Land as follows:

- Will pay USD\$50,000 and issue 1,000,000 fully paid ordinary shares to Metal Land upon confirmation of the transfer of the mineral rights from the DNPM. The shares will be issued subject to shareholder approval at a shareholders' meeting to be held in July 2007.

Metal Land have agreed to a voluntary escrow for a period of up to six months from allotment, whereby they have agreed not to sell any of the above mentioned shares for the first month after the date of allotment, and after that not to sell more than 20% of the remainder shares in any one month for the next 5 months;

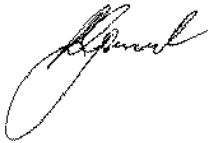
- Twelve months following the execution of the definitive agreement, **Carnavale** shall pay USD\$100,000,
- Twenty four months following the execution of the definitive agreement, **Carnavale** shall pay USD\$130,000;
- Thirty six months following the execution of the definitive agreement, **Carnavale** shall pay USD\$200,000;
- Upon calculation of JORC standard mineable reserves as defined by a completed bankable feasibility study in the Projects, **Carnavale** shall pay USD\$450,000;
- On the commencement of mining activities, **Carnavale** shall pay USD\$1,000,000. Additionally, **Carnavale** shall pay Metal Land a royalty of 2.5% net smelter return. The net smelter return can be exchanged by payment by **Carnavale** of US\$2,000,000.

Carnavale reserves the right to, at its sole discretion, end this agreement at any time, provided that a written notice is delivered to the other party. Upon delivery of such notice, **Carnavale** shall not be held responsible for any of the terms and conditions set-forth in the Letter of Intent and full ownership of the mineral rights in the Project will revert to Metal Land.

This announcement follows recent confirmation that Carnevale Resources has signed an intent to acquire three iron ore projects in Brazil. Each of the Três Cores, Parmegiana and Ilha Redonda iron ore projects has been acquired after successful completion of technical and legal due diligence.

For further information please contact the undersigned.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Ron Gajewski', written in a cursive style.

Ron Gajewski
Executive Director

Further information

About Brazil

Brazil has significant mineral resources and has a rich history of exploration and production. The country produces more than 70 mineral substances. In 2005, Brazil was the largest world producer of niobium (95% of world production), **the second largest producer of iron (16% of world production)**, kaolin (7% of world production), aluminum (11.2% of world production), manganese (11.2% of world production) and gold (1.5% of world production).

This potential, coupled with political stability and the large domestic industrial markets, makes Brazil an attractive country for investments in the mineral sector. The 1995 constitutional reform allowed free participation of foreign capital in the Brazilian mineral sector.

About Molybdenum

Molybdenum is mainly used as an alloy to strengthen iron and steel, increasing the melting point and enhancing resistance to corrosion. It is a vital component in the making of stainless steel and oil and gas pipelines.

With high nickel prices there is increasing substitution of molybdenum-rich duplex stainless steels for nickel steels and when this is combined with a strong world demand for steel products, molybdenum consumption and the metal's price have been on upward trends. Molybdenum mines usually operate in rocks with Mo grades between 0.01% to 0.30% Mo and a significant portion is produced as a by-product of large low-grade copper mines, particularly in the cordilleras of the Americas.

World consumption of molybdenum has increased 400% since the mid-1960s to approximately 200,000 tpa. Over the past two years molybdenum prices have steadily climbed with molybdenum oxide peaking at a 25 year-high of US\$40.00 per lb contained molybdenum in May 2005. This is in stark contrast to the price of US\$3 to US\$5 paid during the 1990s.

The distribution of molybdenum reserves and production is concentrated in only a few countries in the world, with China, USA, Chile and Canada holding nearly 90% of the reserves. USA, Chile and China are the main producers (75%) with each having outputs in 2003 of approximately 30,000 tonnes.

Scientific or technical information in this news release has been prepared under the supervision of Greg Smith, an independent consultant to the Company and a member of the Australasian Institute of Mining and Metallurgy (AusIMM). Mr Smith has sufficient experience which is relevant to the style of mineralisation under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (the JORC Code). Mr Smith consents to the inclusion in this report of the Information, in the form and context in which it appears.

For further information in respect of Carnavale, please contact:

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