

QUARTERLY ACTIVITY REPORT

For the period ended 31 December 2010

Lambouka Oil and Gas Exploration Project (20%)

The Lambouka prospect is located in the ADX operated Kerkouane permit offshore Tunisia. The Lambouka-1 drilling location is approximately 160km North East of Tunis in the Sicily channel. Lambouka is a large 70 square kilometre area tilted horst block which contained three potentially hydrocarbon bearing reservoirs.

The Lambouka prospect was drilled to its planned TD and an initial suite of wireline logs were run in the well. Due to deterioration of the wellbore, the partners decided against running additional logs and further attempts to flow test the well. Lambouka was suspended on September 8 2010 in preparation for potentially re-entering the well at a later date to drill a sidetrack wellbore and potentially further evaluate and test the Abiod formation updip of the current potential discovery.

During the quarter an application was made to the Tunisian authorities for the renewal of the offshore Kerkouane Permit by ADX Energy. The Government of Tunisia approved a three year extension of the Kerkouane permit until February 22 2014.

The Company and its partners continue to compile and review all existing information and data to work out the most efficient way to advance the project.

Parmegiana Iron Ore Project, Brazil (100%)

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

Corporate

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



Ron Gajewski
Executive Director

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

Appendix 5B

Mining exploration entity quarterly report

Name of entity

CARNAVALE RESOURCES LIMITED

ABN

49 119 450 243

Quarter ended ("current quarter")

31 December 2010

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration and evaluation	(2,904)	(3,970)
(b) development	-	-
(c) production	-	-
(d) administration	(147)	(317)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	33	118
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other – Due diligence expenses	-	-
Net Operating Cash Flows	(3,018)	(4,169)
Cash flows related to investing activities		
1.8 Payment for purchase or renewal of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	23	23
1.12 Other –	-	-
Net investing cash flows	23	23
1.13 Total operating and investing cash flows (carried forward)	(2,995)	(4,146)

1.13	Total operating and investing cash flows (brought forward)	(2,995)	(4,146)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	542
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other – share issue expenses	-	-
	Net financing cash flows	-	542
	Net increase (decrease) in cash held	(2,995)	(3,604)
1.20	Cash at beginning of quarter/year to date	5,616	6,312
1.21	Exchange rate adjustments to item 1.20	(42)	(129)
1.22	Cash at end of quarter	2,579	2,579

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

	Current quarter \$A'000
1.23 Aggregate amount of payments to the parties included in item 1.2	113
1.24 Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

	A\$'000
Directors fees, consultancy charges and remuneration	87
Accounting , secretarial and legal expenses	26

Non-cash financing and investing activities

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

N/A.

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

N/A

Financing facilities available

Add notes as necessary for an understanding of the position.

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

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	100
4.2 Development	-
4.3 Production	-
4.4 Administration	150
Total	250

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	129	1,851
5.2 Deposits at call	2,450	3,765
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	2,579	5,616

Changes in interests in mining tenements

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

Issued and quoted securities at end of current quarter

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

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

Compliance statement

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



Sign here:
Print name: Paul Jurman
Company Secretary

Date: 31 January 2011

Notes

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