



carnavale  
resources ltd

ABN 49 119 450 243

**AND CONTROLLED ENTITIES**

**HALF YEARLY FINANCIAL REPORT FOR THE SIX MONTHS ENDED  
31 DECEMBER 2010**

**CARNAVALE RESOURCES LIMITED AND ITS CONTROLLED ENTITIES**

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# CARNAVALE RESOURCES LIMITED AND ITS CONTROLLED ENTITIES

## DIRECTORS' REPORT

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### DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity for the half-year ended 31 December 2010. The directors report as follows:

#### Directors

The directors of the Company during or since the end of the half-year are listed below. All directors were in office for this entire period unless otherwise stated.

Adam Sierakowski	Non-Executive Chairman – resigned 28 February 2011
Ron Gajewski	Executive Chairman
Peter Christie	Non-Executive Director
Klaus Eckhof	Non-Executive Director

#### Results

The consolidated loss for the half-year after tax was \$472,189 (2009: consolidated profit of \$21,545).

#### Review of Operations

##### Lambouka Oil And Gas Exploration Project

In March 2010, Carnavale Resources Limited (“Carnavale” or the “Company”) entered into an agreement with ADX Energy Limited to acquire a 20% working interest in ADX Energy Limited’s (ASX: ADX) two contiguous offshore Exploration Permits, G.R15.PU and Kerkouane (the “Permits”). G.R15.PU is located offshore the island of Pantelleria southwest of Sicily in Italian waters and the Kerkouane Permit is located offshore northeast Tunisia.

The permits contain multiple leads and prospects, of which the most significant 3D seismic generated prospect identified is known as the Lambouka oil and gas prospect (“Lambouka”). The Lambouka prospect was drilled to its planned TD and an initial suite of wireline logs were run in the well. Due to deterioration of the wellbore, the partners decided against running additional logs and further attempts to flow test the well. Lambouka was suspended on the 8th of September in preparation for potentially re-entering the well at a later date to drill a sidetrack wellbore and potentially further evaluate and test the Abiod formation updip of the current potential discovery.

During the period 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 22 February 2014.

The comprehensive Lambouka dataset is currently being evaluated in further detail and in order to move resources into reserves it is planned to re-enter Lambouka then sidetrack and test with a specifically designed reservoir flow test at some time in the future.

# CARNAVALE RESOURCES LIMITED AND ITS CONTROLLED ENTITIES

## DIRECTORS' REPORT

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### **Parmegiana Iron Ore project (100%) Brazil**

Carnavale entered into an agreement in November 2008 with Brazilian major Companhia Vale Do Rio Doce (Vale) with regard to the Company's Parmegiana Iron Ore project in Brazil. Vale had been granted exclusive exploration rights over the Parmegiana property for a period of up to 44 months from November 2008.

In early July 2010, Vale advised that it would not exercise its option to continue with the Parmegiana Iron Ore Project. The Company, upon receipt of all technical data from work completed by Vale, will review results of the exploration work completed to date to determine the way forward for the development of the Parmegiana Iron Ore Project. All carried forward costs in relation to the Parmegiana project have been fully impaired at 31 December 2010.

### **Corporate**

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

### **Auditor's Independence Declaration**

Section 307C of the Corporations Act 2001 requires the Company's auditors, HLB Mann Judd, to provide the directors of the Company with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is set out on the next page and forms part of this directors' report for the half-year ended 31 December 2010.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to s.306(3) of the Corporations Act 2001.



R Gajewski  
Executive Director  
Perth

Dated this 15th day of March 2011

*Scientific or technical information has been prepared under the supervision of Mr Klaus Eckhof, a Technical Director of the Company and a member of the Australasian Institute of Mining and Metallurgy (AusIMM). Mr Eckhof 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 Eckhof consents to the inclusion in this report of the Information, in the form and context in which it appears.*

## AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Carnavale Resources Limited for the half-year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) any applicable code of professional conduct in relation to the review.



Perth, Western Australia  
15 March 2011

**L DI GIALLONARDO**  
Partner, HLB Mann Judd

**CARNAVALE RESOURCES LIMITED AND ITS CONTROLLED ENTITIES**

**CONDENSED STATEMENT OF COMPREHENSIVE INCOME**

For the half year ended 31 December 2010

	<b>Note</b>	<b>Consolidated 6 Months Ended 31 December 2010 \$</b>	<b>Consolidated 6 Months Ended 31 December 2009 \$</b>
Revenue		110,128	613,473
Expenditure			
Administrative expenses		(327,316)	(339,131)
Commissions paid		-	(61,008)
Exploration expenditure written off		(123,191)	-
Other expenses		-	(53)
Depreciation expense		(2,503)	(4,637)
Foreign exchange (loss)		(129,307)	(187,099)
<b>Profit / (loss) before related income tax expense</b>	<b>2</b>	<b>(472,189)</b>	<b>21,545</b>
Income tax expense		-	-
<b>Net profit / (loss) for the period</b>		<b>(472,189)</b>	<b>21,545</b>
<b>Other comprehensive income / (loss)</b>			
Exchange differences on translation of foreign operations		(9,889)	10,506
<b>Total comprehensive income / (loss) for the period attributable to owners of the parent</b>		<b>(482,078)</b>	<b>32,051</b>
Basic earnings / (loss) per share (cents per share)		(0.54)	0.03

The accompanying notes form part of these financial statements.

**CARNAVALE RESOURCES LIMITED AND ITS CONTROLLED ENTITIES**

**CONDENSED STATEMENT OF FINANCIAL POSITION**

As at 31 December 2010

	Notes	<b>Consolidated 31 December 2010 \$</b>	<b>Consolidated 30 June 2010 \$</b>
<b>Current Assets</b>			
Cash and cash equivalents		2,577,792	6,311,818
Trade and other receivables		24,714	96,732
Other assets		8,844	18,956
<b>Total Current Assets</b>		<b>2,611,350</b>	<b>6,427,506</b>
<b>Non-Current Assets</b>			
Property, plant and equipment		21,510	26,239
Deferred exploration and evaluation expenditure	3	10,183,159	6,334,981
<b>Total Non-Current Assets</b>		<b>10,204,669</b>	<b>6,361,220</b>
<b>Total Assets</b>		<b>12,816,019</b>	<b>12,788,726</b>
<b>Current Liabilities</b>			
Trade and other payables		41,567	74,597
<b>Total Current Liabilities</b>		<b>41,567</b>	<b>74,597</b>
<b>Total Liabilities</b>		<b>41,567</b>	<b>74,597</b>
<b>Net Assets</b>		<b>12,774,452</b>	<b>12,714,129</b>
<b>Equity</b>			
Issued capital	4	22,625,369	22,082,968
Option premium reserve	5	1,249,661	1,249,661
Foreign currency translation reserve		(5,095)	4,794
Accumulated losses		(11,095,483)	(10,623,294)
<b>Total Equity</b>		<b>12,774,452</b>	<b>12,714,129</b>

The accompanying notes form part of these financial statements.

**CARNAVALE RESOURCES LIMITED AND ITS CONTROLLED ENTITIES**

**CONDENSED STATEMENT OF CHANGES IN EQUITY**

For the half year ended 31 December 2010

<b>Consolidated</b>	<b>Issued Capital</b>	<b>Accumulated Losses</b>	<b>Option Premium Reserve</b>	<b>Foreign Currency Translation Reserve</b>	<b>Total Equity</b>
	\$	\$	\$	\$	\$
<b>Balance at 1 July 2009</b>	18,137,501	(5,974,705)	536,390	49,488	12,748,674
Profit / (loss) attributable to members of the parent entity	-	21,545	-	-	21,545
Exchange differences arising on translation of foreign operations	-	-	-	10,506	10,506
<b>Total comprehensive loss for the period</b>		21,545		10,506	32,051
<b>Balance at 31 December 2009</b>	18,137,501	(5,953,160)	536,390	59,994	12,780,725
<b>Balance at 1 July 2010</b>	22,082,968	(10,623,294)	1,249,661	4,794	12,714,129
Profit / (loss) attributable to members of the parent entity	-	(472,189)	-	-	(472,189)
Exchange differences arising on translation of foreign operations	-	-	-	(9,889)	(9,889)
<b>Total comprehensive loss for the period</b>	-	(472,189)	-	(9,889)	(482,078)
Shares issued, net of costs	542,401	-	-	-	542,401
<b>Balance at 31 December 2010</b>	22,625,369	(11,095,483)	1,249,661	(5,095)	12,774,452

The accompanying notes form part of these financial statements.

**CARNAVALE RESOURCES LIMITED AND ITS CONTROLLED ENTITIES**

**CONDENSED STATEMENT OF CASH FLOWS**

For the half year ended 31 December 2010

	<b>Consolidated 6 Months Ended 31 December 2010 \$</b>	<b>Consolidated 6 Months Ended 31 December 2009 \$</b>
<b>Cash flows from operating activities</b>		
Cash payments in the course of operations	(343,184)	(408,199)
Interest received	118,251	131,428
<b>Net cash used in operating activities</b>	<b>(224,933)</b>	<b>(276,771)</b>
<b>Cash flows from investing activities</b>		
Payments for exploration and development expenditure	(3,917,776)	(97,228)
Proceeds received from disposal of investment	-	2,032,519
Commissions paid	-	(61,008)
Payments for plant and equipment	-	(1,588)
<b>Net cash (used in) / provided by investing activities</b>	<b>(3,917,776)</b>	<b>1,872,695</b>
<b>Cash flows from financing activities</b>		
Proceeds from exercise of options	542,401	-
<b>Net cash provided by financing activities</b>	<b>542,401</b>	<b>-</b>
<b>Net (decrease) / increase in cash held</b>	<b>(3,600,308)</b>	<b>1,595,924</b>
Cash at the beginning of the reporting period	6,311,818	6,939,470
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies	(133,718)	(9,780)
<b>Cash at the end of the reporting period</b>	<b>2,577,792</b>	<b>8,525,614</b>

The accompanying notes form part of these financial statements.

# CARNAVALE RESOURCES LIMITED AND ITS CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2010

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### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

#### **Statement of compliance**

These interim consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, applicable accounting standards including AASB 134: Interim Financial Reporting, Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

This condensed half-year report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the Group as in the full financial report.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2010 and any public announcements made by Carnavale Resources Limited and its subsidiaries during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and the ASX Listing Rules.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

#### **Basis of preparation**

The interim report has been prepared on a historical cost basis. Cost is based on the fair value of the consideration given in exchange for assets. The company is domiciled in Australia and all amounts are presented in Australian dollars, unless otherwise noted.

For the purpose of preparing the interim report, the half-year has been treated as a discrete reporting period.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's annual financial report for the financial year ended 30 June 2010.

#### **Significant accounting judgements and key estimates**

The preparation of interim financial reports requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report for the year ended 30 June 2010.

# CARNAVALE RESOURCES LIMITED AND ITS CONTROLLED ENTITIES

## NOTES TO THE FINANCIAL STATEMENTS

For the half year ended 31 December 2010

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### **Adoption of new and revised Accounting Standards**

In the half-year ended 31 December 2010, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2010.

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2010. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies.

**CARNAVALE RESOURCES LIMITED AND ITS CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS**

For the half year ended 31 December 2010

**2. PROFIT / (LOSS) BEFORE INCOME TAX EXPENSE**

	<b>Consolidated 31 December 2010 \$</b>	<b>Consolidated 31 December 2009 \$</b>
The following revenue and expense items are relevant in explaining the financial performance for the half-year:		
Revenue		
Interest received	110,128	140,507
Profit on sale of investment	-	472,966
Total	<u>110,128</u>	<u>613,473</u>
Expenses		
Write-off of capitalised exploration expenditure	(123,191)	-

**3. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE**

	<b>Consolidated 31 December 2010 (6 months) \$</b>	<b>Consolidated 30 June 2010 (12 months) \$</b>
Costs carried forward in respect of areas of interest in the following phases:		
<b>Exploration and evaluation phase – at cost</b>		
Balance at 1 July	6,334,981	4,052,847
Expenditure incurred	3,971,369	6,475,440
Exploration expenditure impaired	(123,191)	(4,148,113)
Net foreign currency differences	-	(45,193)
Balance at 31 December	<u>10,183,159</u>	<u>6,334,981</u>

The recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phases are dependent on the successful development and commercial exploitation or sale of the respective areas.

**CARNAVALE RESOURCES LIMITED AND ITS CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS**

For the half year ended 31 December 2010

**4. ISSUED CAPITAL**

	<b>Consolidated 31 December 2010 \$</b>	<b>Consolidated 30 June 2010 \$</b>
<b>(a) Issued and paid-up share capital</b>		
87,739,708 (30 June 2010: 85,027,700) ordinary shares, fully paid	<u>22,625,369</u>	<u>22,082,968</u>
<i>Movements in Ordinary Shares:</i>		
	<b>Number</b>	<b>\$</b>
Balance at 1 July 2010	85,027,700	22,082,968
Shares issued pursuant to exercise of options	2,712,008	542,401
Balance at 31 December 2010	<u><b>87,739,708</b></u>	<u><b>22,625,369</b></u>

**5. OPTION RESERVE**

	<b>Consolidated 31 December 2010 \$</b>	<b>Consolidated 30 June 2010 \$</b>
Option Reserve	<u>1,249,661</u>	<u>1,249,661</u>

*There were no movements during the period*

**6. CONTINGENT LIABILITIES**

There has been no change in contingent liabilities since the last annual reporting date.

**7. EVENTS OCCURRING SUBSEQUENT TO BALANCE DATE**

There are no matters or circumstances that have arisen since 31 December 2010 that have or may significantly affect the operations, results, or state of affairs of the consolidated entity in future financial periods.

**CARNAVALE RESOURCES LIMITED AND ITS CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS**  
For the half year ended 31 December 2010

**8. SEGMENT REPORTING**

The directors have considered the requirements of AASB 8 – Operating Segments and the internal reports that are reviewed by the chief operating decision maker (the Board) in allocating resources and have concluded that, during the period, Carnavale operated in the oil exploration industry in Tunisia, mineral exploration industry in Brazil and investing activities in Australia.

	Investing	Mineral Exploratio n	Oil Exploratio n	Eliminations	Consolidated
<b>31 December 2010</b>	\$	\$	\$	\$	\$
<b>Business segments</b>					
<b>Revenue</b>					
Other external revenue	110,128	-	-	-	110,128
Total segment revenue	110,128	-	-	-	110,128
<b>Results</b>					
Operating loss before income tax	(340,857)	(131,332)	-	-	(472,189)
Income tax expense					-
Net loss					(472,189)
<b>31 December 2010</b>					
<b>Assets</b>					
Segment assets	2,575,883	56,977	10,183,159	-	12,816,019
<b>Liabilities</b>					
Segment liabilities	36,008	5,559	-	-	41,567
	Investing	Mineral Exploratio n	Oil Exploratio n	Eliminations	Consolidated
<b>31 December 2009</b>	\$	\$	\$	\$	\$
<b>Business segments</b>					
<b>Revenue</b>					
Other external revenue	613,323	150	-	-	613,473
Total segment revenue	613,323	150	-	-	613,473
<b>Results</b>					
Operating profit / (loss) before income tax	44,843	(23,298)	-	-	21,545
Income tax expense					-
Net profit					21,545
<b>30 June 2010</b>					
<b>Assets</b>					
Segment assets	6,359,059	94,686	6,334,981	-	12,788,726
<b>Liabilities</b>					
Segment liabilities	65,037	9,560	-	-	74,597

**CARNAVALE RESOURCES LIMITED AND ITS CONTROLLED ENTITIES**

**DIRECTORS' DECLARATION**

31 December 2010

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In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity:
  - (i) comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
  - (ii) give a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year then ended.
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the board of directors.



R Gajewski  
Executive Director

Dated at Perth this 15th day of March 2011

**INDEPENDENT AUDITOR'S REVIEW REPORT**

To the members of Carnavale Resources Limited

**Report on the Condensed Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Carnavale Resources Limited ("the Company") which comprises the condensed statement of financial position as at 31 December 2010, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the half-year end or from time to time during the half-year.

**Directors' Responsibility for the Half-Year Financial Report**

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Carnavale Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

## Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Carnavale Resources Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*HLB Mann Judd*

**HLB MANN JUDD**  
Chartered Accountants

*L Di Giallonardo*

Perth, Western Australia  
15 March 2011

**L DI GIALONARDO**  
Partner