



carnavale
resources ltd

ABN 49 119 450 243

AND CONTROLLED ENTITIES

ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2016

CARNAVALE RESOURCES LIMITED
CONTENTS

	Page
Corporate Directory	1
Review of Operations	2
Directors' Report	5
Corporate Governance Statement	15
Auditor's Independence Declaration	24
Consolidated Statement of Comprehensive Income	25
Consolidated Statement of Financial Position	26
Consolidated Statement of Changes in Equity	27
Consolidated Statement of Cash Flows	28
Notes to the Financial Statements	29
Directors' Declaration	52
Independent Auditor's Report	53
Shareholder Information	55
Schedule of Mineral Concession Interests	57

**CARNAVALE RESOURCES LIMITED
CORPORATE DIRECTORY**

DIRECTORS

Ron Gajewski
Andrew Beckwith
Rhett Brans
Andrew Chapman

COMPANY SECRETARY

Paul Jurman

**PRINCIPAL AND REGISTERED
OFFICE**

Level 2, Suite 9
389 Oxford Street
Mount Hawthorn WA 6016

Telephone: (08) 9380 9098
Facsimile: (08) 9380 6761
Email: admin@carnavaleresources.com
Website: www.carnavaleresources.com

AUDITORS

HLB Mann Judd
Level 4 130 Stirling Street
Perth WA 6000

SHARE REGISTRY

Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross WA 6153

Telephone: (08) 9315 2333
Facsimile: (08) 9315 2233

SECURITIES EXCHANGE

Australian Securities Exchange
Level 40, Central Park
152-158 St Georges Terrace
Perth WA 6000

ASX CODE

CAV

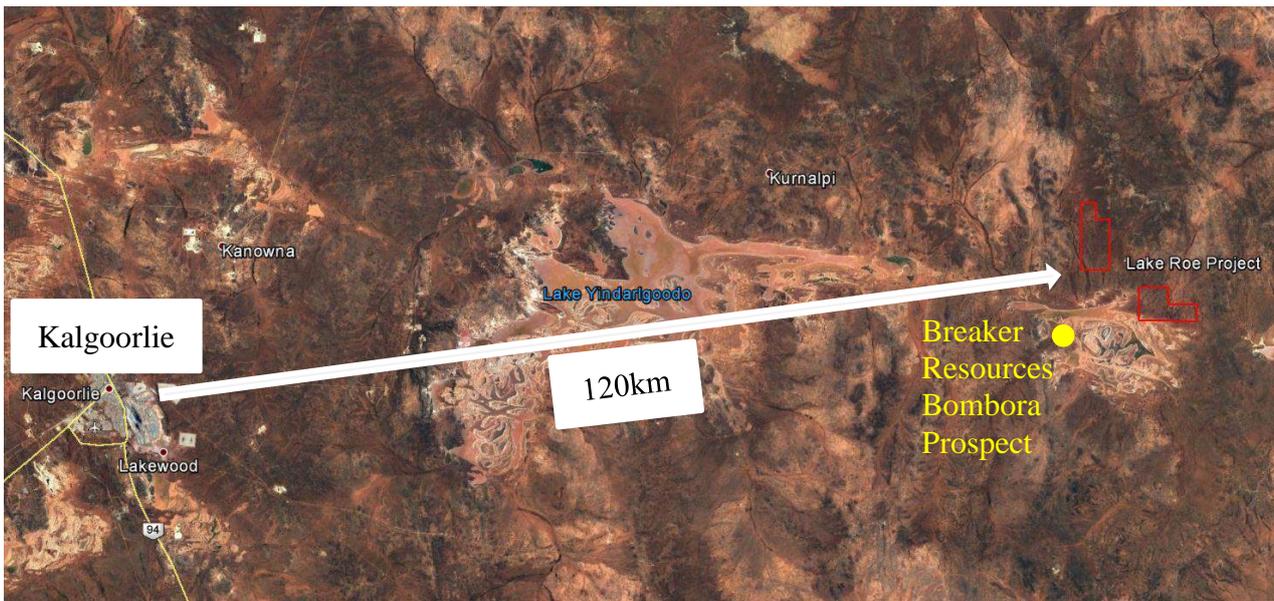
CARNAVALE RESOURCES LIMITED

REVIEW OF OPERATIONS

During the year, Carnavale Resources Limited (“Carnavale” or “Company”) continued its business of mineral exploration in the United States of America and also acquired 100% of the Lake Roe Project, comprising two exploration licences (E28/2303 and E28/2304) located 120km ENE of Kalgoorlie (Fig 1). The two tenements cover a sequence of deformed Archean greenstone belt within the Southern Laverton Tectonic Zone (SLTZ) and are considered prospective for gold mineralisation.

The Company has the principal strategy to focus on the exploration and mining sector in prospective and safe jurisdictions that can add value for shareholders. Alternative technology and financial opportunities were also reviewed during the year. In addition to evaluating new mineral projects, the Board will also consider business opportunities in other sectors.

Figure 1 Location of Carnavale’s Lake Roe Project, Western Australia



Lake Roe Project , Western Australia – Au (Carnavale – 100%)

The Southern Laverton Tectonic Zone is host to a number of large gold deposits with the Lake Roe Project area centred between Carosue Dam (3.5Moz), located approximately 40km to the north, and Karonie (0.9Moz), approximately 50km to the south. These deposits are associated with the major Keith-Kilkenny and Claypan Shears, which represent two major tectonic shear zones that converge near the Lake Roe region.

Carnavale’s Lake Roe Project area lies immediately north and east of ASX Listed Breaker Resources (Breaker) Lake Roe project where Breaker has defined significant shallow gold mineralisation in widespaced RC drilling over a 2.2km long north-south trending zone associated with fractionated dolerites and banded iron formation within the Claypan Shear Zone and adjacent to a granite contact to the east.

Breaker’s exploration methodology commenced with widespaced aircore drilling to define a cohesive 300m wide anomalous corridor over 6km long and under shallow transported material. Subsequent follow-up deeper RC drilling has intersected significant gold mineralisation, including 13m @ 1.43g/t, 34m @ 2.08g/t, 11m @ 3.11g/t and 18m @ 2.97g/t over a 2.2km long strike length. Further infill and extensional RC drilling is continuing along the Claypan Shear to the north closer to Carnavale’s tenement E28/2303, approximately 8km to the north of the Bombora prospect.

Exploration licence E28/2303 covers portions of the interpreted Claypan Shear and second order structures to the immediate east of the main Claypan Shear adjacent to a granite intrusion located to the immediate south east and within the tenement. A review of existing data, showing previous aircore drilling completed by earlier explorers, has defined a number of strong gold-arsenic anomalies under shallow transported material.

CARNAVALE RESOURCES LIMITED REVIEW OF OPERATIONS

The high priority **Stag Prospect**, is defined by highly anomalous aircore / RAB drilling results >300ppb gold over greater than 600m strike length and is associated with strongly sheared altered volcanoclastic rocks with minor quartz veining bounded by dolerite/basalt and a porphyry/granite on the western margin of the prospect. Many of the drill intersections ended in mineralisation and remain open at depth.

Significant aircore/RAB drilling intersections at the Stag Prospect include:

- **RORB0402** *8m @ 8.22g/t Au from 79m including 1m @ 57.17g/t Au
- **RORB0501** *20m @ 0.57g/t Au from 76m
- **RORB0508** *2m @ 0.15g/t Au from 103m
- **RORB0536** *8m @ 1.19g/t Au from 69m
- **MRAC0005** *10m @ 0.14g/t Au from 74m

(* Mineralisation open at end of hole)

The anomalous gold zone has only been tested with 2 RC and 2 diamond holes, by the previous explorers, with only limited results including 1m @ 0.37g/t and 1 @ 1.12g/t Au in NRR002 and CPD001 respectively.

Magnetic and gravity datasets suggest the Stag Prospect occurs on the eastern limb of a folded dolerite/schist sequence associated with a SE trending second order structure. This SE trending structure has not been tested a further 3km along strike. Other second order structures, potential differentiated dolerite and BIF targets and a moderate sized granite occur elsewhere in the tenement. Previous RAB and aircore drilling is estimated to have tested only approximately 20% of the tenement area, providing scope to expand on the known Stag anomaly.

Exploration licence E28/2304 to the south east of E28/2303, has similar geological setting with chlorite-biotite-sericite schists, siltstones and ultramafic schists intersected in relatively wide-spaced aircore traverses.

The magnetic data suggests either a folded magnetic dolerite or BIF sequence occurs through the central portions of the tenement, truncated by a NE trending regional structure and magnetic dyke. This SE trending fold hinge partially coincides with an historic augur gold anomaly. This structurally favourable target has the potential for sulphidised BIF and/or altered differentiated dolerite and remains to be systematically tested. On the eastern half of the tenement, a NE trending fold hinge provides an additional structural target.

Programmes

At the Stag Prospect, Carnavale is currently organising a programme of detailed RC drill traverses, for a total of 1,000 – 1,500m, across the priority aircore/RAB targets to test the gold mineralisation in greater detail. The holes are designed to provide detailed geological sections to approximately 100m depth and provide continuity of geology and mineralisation on each section. Subsequent infill drilling along strike will be completed subject to positive results.

Red Hills Project , Nevada, USA – Au-Ag-Cu-Pb-Zn

The Red Hills Project comprised mineral claims covering an area of approximately 13.4km², located in eastern Nevada, USA. The project area was considered highly prospective for large multi-million ounce scale “Carlin style” gold and silver deposits and also structurally controlled polymetallic (gold, silver, copper, lead and zinc) deposits.

During the period, Carnavale’s exploration activities focused primarily on RC (Reverse Circulation) and Diamond drill testing of the two priority targets, Rattler and Cobra, at the Red Hills Project, located near the township of Ely, Nevada.

A programme of four RC and three diamond drill holes was undertaken to test this shear zone and associated polymetallic mineralisation. The drilling was successful in defining strong polymetallic Ag-Pb-Zn-(Au) mineralisation in three of the four RC holes.

Subsequent to the end of the period, the Company having completed a review of the project potential for defining a gold resource elected to withdraw from the Joint Venture.

CARNAVALE RESOURCES LIMITED

REVIEW OF OPERATIONS

Little Butte Project , Arizona

The Little Butte Project, comprised mineral claims covering an area approximately 9km², located approximately 250km south - southeast of Las Vegas and 200km west of Phoenix, in the state of Arizona. The area lies within the major Walker Lane corridor spanning from southern Nevada, through Arizona and south into Mexico which hosts many large epithermal to porphyry related Au, Cu-Au and Cu-Mo deposits.

Activities during the period were restricted to assessment of previous exploration results with no field work undertaken. As a consequence of the review, Carnavale elected to withdraw from the Little Butte Option Agreement.

Corporate

Capital Raisings

In February and April 2016, the Company completed a capital raising of 201,214,652 shares at 0.8 cents per share to raise \$1,609,717. The capital raising was managed by Cicero Advisory Services Pty Ltd.

Directors Mr Gajewski, Mr Beckwith and Mr Chapman collectively participated in the capital raising for a total of 33,750,000 shares following shareholder approval received at a general meeting of shareholders held in March 2016.

The funds raised were used to provide funding for ongoing working capital, existing project funding and the assessment of new investment opportunities in both the resource and non-resource sectors.

Other Minerals Investment Opportunities

The Board has also carried out the review of several mineral projects and corporate opportunities during the last financial year. The Company remains diligent in its assessment of assets at all times and is therefore prepared to commit necessary expenditure on due diligence and other studies before committing to a transaction.

The Company can give no assurance that these due diligence investigations and / or discussions will successfully conclude in an acquisition.

Competent Person's Statements – Exploration Results

The information in this report that relates to the Lake Roe Project was previously reported by the Company in compliance with JORC 2012 in a market release dated 29 July 2016. The Company confirms that it is not aware of any new information or data that materially affects the information included in the market announcement dated 29 July 2016.

CARNAVALE RESOURCES LIMITED DIRECTORS' REPORT

The Directors of Carnavale Resources Limited submit herewith the annual financial report of Carnavale Resources Limited ("Company") and its controlled entities ("Consolidated Entity" or "Group") for the year ended 30 June 2016 and the independent auditor's report thereon. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

DIRECTORS

The names and particulars of the directors of the Company during or since the end of the financial year are as follows.

Directors were in office for the entire period unless otherwise stated.

Ron Gajewski, BBus, CPA
Executive Chairman
Appointed 18 October 2006

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 has held directorships with mining companies listed in both Canada and Australia.

During the past three years he has also served as a director of the following listed companies:

<i>Company</i>	<i>Date appointed</i>	<i>Date ceased</i>
Explaurum Limited	9 July 2007	27 November 2013
Burey Gold Limited	23 March 2005	12 August 2014

Andrew Beckwith, BSc Geology, AusIMM
Managing Director
Appointed 29 July 2014

Mr Beckwith is a successful explorer whose past experience includes senior technical roles with AngloGold Ashanti, Acacia Resources, Helix Resources, Normandy NFM, North Flinders Mines, BP Minerals Australia and at Westgold Resources, where he led the team initially as exploration manager and then as Managing Director. Additionally, Mr Beckwith recently held the position of director of Bulletin Resources.

During his time with Westgold, he was intimately involved in the Explorer 108 Pb-Zn-Ag and the Au-Cu Rover 1 (1.2Moz) discoveries, both in the Northern Territory. Westgold was awarded the "2008 Explorer of the Year" for the Rover 1 discovery and also went on to acquire the Central Murchison Gold Project, in Western Australia, with growth from an initial 1.9Moz resource on acquisition to the current 5.0Moz with mining development currently underway by Metals X, which acquired Westgold in 2012.

During the past three years he has also served as a director of the following listed companies:

<i>Company</i>	<i>Date appointed</i>	<i>Date ceased</i>
Bulletin Resources Limited	13 August 2013	24 June 2014

Rhett Brans, MIEAust CPEng
Independent Non-Executive Director
Appointed 17 September 2013

Mr Brans has 40 years of experience in project development of treatment plants and mine developments. In his former role as Executive Director at Perseus Mining Limited, he successfully completed a Bankable Feasibility Study and completed construction of the 5.5 million tonnes per year Edikan Gold Mine in Ghana. He also completed a Feasibility Study for the Sissingue Gold Project in Cote d'Ivoire, which was ready at the time for construction.

Earlier with Minproc, he was responsible for the management (both directly and indirectly) of the engineering design, procurement and construction management of 22 mineral extraction facilities. Within this period he was

**CARNAVALE RESOURCES LIMITED
DIRECTORS' REPORT**

responsible, as the overall project manager, for a \$340 million fully integrated mineral sands extraction and treatment facility for Ti-West, now called Tigor.

In addition, as a founding Director of Tritton Resources Limited and Managing Director of a successful engineering consulting company, Mr Brans has been involved with the development of more than 20 further projects in Australia and Africa. Mr Brans is also a non-executive director of TSX-V listed Monument Mining Limited.

During the past three years he has also served as a director of the following listed companies:

Company	Date appointed	Date ceased
Syrah Resources Limited	12 June 2013	-
RMG Limited	19 January 2015	13 September 2016
Perseus Mining Limited	26 May 2004	15 November 2013

Andrew Chapman CA

Independent Non-Executive Director
Appointed 31 March 2015

Mr Chapman is a Chartered Accountant with over 20 years' experience with publicly listed companies where he has held positions as Company Secretary and Chief Financial Officer and has experience in the areas of corporate acquisitions, divestments and capital raisings. He has worked for a number of public companies in the mineral resources, oil and gas and technology sectors. Mr Chapman is currently the Company Secretary for Matsa Resources Limited and Bulletin Resources Limited.

Mr Chapman is an associate member of Chartered Accountants Australia and New Zealand (CAANZ) and a Fellow of the Financial Services Institute of Australasia (Finsia).

During the past three years he has also served as a director of the following listed companies:

Company	Date appointed	Date ceased
Matsa Resources Limited	17 December 2009	-

Klaus Eckhof, Dipl. Geol. TU, AusIMM

Independent Non-Executive Director
Appointed 1 January 2008, resigned 20 July 2015.

Mr. Eckhof is a geologist who has global contacts and has been instrumental in sourcing and developing successful projects in Australia, Africa, Russia, South America and the Philippines.

COMPANY SECRETARY

Paul Jurman, BCom, CPA

Appointed 22 November 2006

Mr Jurman is a Certified Practising Accountant with over 10 years experience and has been involved with a diverse range of Australian public listed companies in company secretarial and financial roles. He is also company secretary of Nemex Resources Limited, Kangaroo Resources Limited and Platina Resources Limited.

Directors' interests

The relevant interests in the shares and options of the consolidated entity at the date of this report are as follows:

Name	Ordinary shares	Unlisted Options	Unlisted Incentive Options
R Gajewski	43,960,000	19,523,132	13,000,000
A Beckwith	23,661,370	6,666,600	4,000,000
R Brans	2,000,000	4,000,000	1,000,000
A Chapman	6,295,900	1,333,400	1,000,000

No director has an interest, whether directly or indirectly, in a contract or proposed contract with the consolidated entity.

CARNAVALE RESOURCES LIMITED

DIRECTORS' REPORT

PRINCIPAL ACTIVITIES

The principal activity of the Group was mineral exploration in Australia and USA.

RESULTS AND DIVIDENDS

The consolidated loss after tax for the year ended 30 June 2016 was \$2,901,718 (2015: \$552,328). No dividends were paid during the year and the Directors do not recommend payment of a dividend.

EARNINGS PER SHARE

Basic loss per share for the year was 0.90 cents (30 June 2015: 0.28 cents).

REVIEW OF OPERATIONS / OPERATING AND FINANCIAL REVIEW

The Group is engaged in mineral exploration for metals in Australia and USA. A review of the Group's operations, including information on exploration activity and results thereof, financial position, strategies and projects of the consolidated entity during the year ended 30 June 2016 is provided in this Financial Report and, in particular, in the "Review of Operations" section immediately preceding this Directors' Report. The Group's financial position, financial performance and use of funds information for the financial year is provided in the financial statements that follow this Directors' Report.

As an exploration entity, the Group has no operating revenue or earnings and consequently the Group's performance can not be gauged by reference to those measures. Instead, the Directors consider the Group's performance based on the the success of exploration activity, acquisition of additional prospective mineral interests and, in general, the value added to the Group's mineral portfolio during the course of the financial year.

Whilst performance can be gauged by reference to market capitalisation, that measure is also subject to numerous external factors. These external factors can be specific to the Group, generic to the mining industry and generic to the stock market as a whole and the Board and management would only be able to control a small number of these factors.

The Group's business strategy for the financial year ahead and, in the foreseeable future, is to continue exploration activity on the Group's existing mineral projects, identify and assess new mineral project opportunities throughout the world and review development strategies where individual projects have reached a stage that allows for such an assessment. Due to the inherent risky nature of the Group's activities, the Directors are unable to comment on the likely results or success of these strategies. The Group's activities are also subject to numerous risks, mostly outside the Board's and management's control. These risks can be specific to the Group, generic to the mining industry and generic to the stock market as a whole. The key risks, expressed in summary form, affecting the Group and its future performance include but are not limited to:

- Geological and technical risk posed to exploration and commercial exploitation success;
- Sovereign risk, change in government policy, change in mining and fiscal legislation;
- Prevention of access by reason of political or civil unrest, outbreak of hostilities, inability to obtain regulatory or landowner consents or approvals, or native title issues;
- force majeure events;
- change in metal market conditions;
- mineral title tenure and renewal risks; and
- capital requirement and lack of future funding.

This is not an exhaustive list of risks faced by the Group or an investment in it. There are other risks generic to the stock market and the world economy as whole and other risks generic to the mining industry, all of which can impact on the Group.

CARNAVALE RESOURCES LIMITED

DIRECTORS' REPORT

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company's objective is to maximise shareholder value through the discovery and delineation of significant gold, copper, silver and other mineral deposits throughout the world.

The Directors are unable to comment on the likely results from the Company's planned exploration activities due to the speculative nature of such activities.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There has not been any significant changes in the state of affairs of the company and its controlled entities during the financial year, other than as noted in this financial report.

SUBSEQUENT EVENTS

Subsequent to the end of the period, the Company withdrew from the Red Hills Joint Venture.

Other than the above, no matter or circumstance has arisen which has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

ENVIRONMENTAL ISSUES

The Group is aware of its environmental obligations with regards to its exploration activities and ensures that it complies with all regulations when carrying out exploration work.

DIRECTORS' MEETINGS

The number of meetings of the Directors and the number of meetings attended by each Director during the year ended 30 June 2016 were:

<i>Name</i>	<i>Eligible to attend</i>	<i>Attended</i>
R Gajewski	5	5
A Beckwith	5	5
R Brans	5	5
A Chapman	5	5
K Eckhof	-	-

CARNAVALE RESOURCES LIMITED

DIRECTORS' REPORT

REMUNERATION REPORT – AUDITED

Remuneration policy

The remuneration policy of Carnavale Resources Limited has been designed to align directors' objectives with shareholder and business objectives by providing a fixed remuneration component which is assessed on an annual basis in line with market rates. The Board of Carnavale Resources Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best directors to run and manage the Company.

The Board's policy for determining the nature and amount of remuneration for Board members is as follows:

- The remuneration policy and setting the terms and conditions for the Executive Directors and other senior staff members is developed and approved by the Board based on local and international trends among comparative companies and industry generally. It examines terms and conditions for employee incentive schemes, benefit plans and share plans. Independent advice is obtained when considered necessary to confirm that executive remuneration is in line with market practice and is reasonable within Australian executive reward practices.
- All executives receive a base salary (which is based on factors such as length of service and experience) and superannuation.
- The Consolidated Entity is an exploration entity and is, therefore, speculative in terms of performance. Consistent with attracting and retaining talented executives, directors and senior executives are paid market rates associated with individuals in similar positions within the same industry. Options and performance incentives may be issued particularly as the Consolidated Entity moves from an exploration to a producing entity and key performance indicators such as profit and production and reserves growth can be used as measurements for assessing executive performance.
- The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The Executive Directors, in consultation with independent advisors, determine payments to the non-executive directors and review their remuneration annually, based on market practice, duties and accountability. The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at a shareholders meeting on 5 January 2007 when the shareholders approved an aggregate remuneration of \$200,000 per year. Fees for non-executive directors are not linked to the performance of the Consolidated Entity. However, to align Directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company.

Voting and comments made at the Company's 2015 Annual General Meeting (AGM) – At the 2015 AGM, less than 1% of the votes received did not support the adoption of the remuneration report for the year ended 30 June 2015. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of specified key management personnel (KMP)

Directors

R Gajewski	Executive Chairman	Appointed 18 October 2006
A Beckwith	Managing Director	Appointed 29 July 2014
R Brans	Non-Executive Director	Appointed 17 September 2013
A Chapman	Non-Executive Director	Appointed 31 March 2015
K Eckhof	Non-Executive Director	Appointed 1 January 2008 Resigned 20 July 2015

Executive Directors' remuneration and other terms of employment are reviewed annually by the non-executive directors having regard to performance against goals set at the start of the year, relative comparative information and independent expert advice.

Except as detailed in the Remuneration Report, no director has received or become entitled to receive, during or since the financial period, a benefit because of a contract made by the Consolidated Entity or a related body corporate with a director, a firm of which a director is a member or an entity in which a director has a substantial financial interest. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by directors and shown in the Remuneration Report, prepared in accordance with the Corporations regulations, or the fixed salary of a full time employee of the Consolidated Entity.

**CARNAVALE RESOURCES LIMITED
DIRECTORS' REPORT**

Remuneration of KMP:

Remuneration for the year ended 30 June 2016

	Short-term benefits		Post-employment Super-annuation \$	Equity-based compensation (A) \$	Total \$	Proportion related to options and performance %
	Directors' fees \$	Consulting fees \$				
	Directors					
R Gajewski	-	80,000	-	104,783	184,783	57
A Beckwith	-	99,125	-	32,241	131,366	25
R Brans	22,000	-	2,090	8,060	32,150	25
A Chapman	22,000	-	2,090	8,060	32,150	25
K Eckhof	1,249	-	-	-	1,249	-
Total	45,249	179,125	4,180	153,144	381,698	

(A) The fair value of options is calculated at the date of grant using a Black-Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed above is the portion of the fair value of the options allocated to this reporting period. This is the only element of the above remuneration that is performance based.

Remuneration for the year ended 30 June 2015

	Short-term benefits		Post-employment Super-annuation \$	Equity-based compensation \$	Total \$	Proportion related to performance %
	Directors' fees \$	Consulting fees \$				
	Directors					
R Gajewski	-	118,500	-	-	118,500	-
A Beckwith	-	180,675	-	-	180,675	-
R Brans	24,000	-	2,280	-	26,280	-
A Chapman	6,000	-	570	-	6,570	-
K Eckhof	24,000	-	-	-	24,000	-
P Christie	2,404	-	-	-	2,404	-
Total	56,404	299,175	2,850	-	358,429	

Accounting, secretarial and corporate service fees of \$95,852 (2015: \$91,028) and rental fees of \$29,906 (2015: \$31,891) were paid or payable during the year ended 30 June 2016 on normal terms and conditions to Corporate Consultants Pty Ltd, a company in which Mr Gajewski is a director and has a beneficial interest.

Corporate Consultants Pty Ltd previously held a rental security deposit of \$9,375 which was refunded during the year ended 30 June 2016 (Note 12).

Remuneration Options granted as part of remuneration for the year ended 30 June 2016

Key Management Personnel	Grant date	Number granted	Number vested at year end	Average fair value per option at grant date	Maximum total value of grant yet to vest
R Gajewski	8 April 2016	13,000,000	13,000,000	0.8 cents	-
A Beckwith	8 April 2016	4,000,000	4,000,000	0.8 cents	-
R Brans	8 April 2016	1,000,000	1,000,000	0.8 cents	-
A Chapman	8 April 2016	1,000,000	1,000,000	0.8 cents	-

**CARNAVALE RESOURCES LIMITED
DIRECTORS' REPORT**

Remuneration Options granted as part of remuneration for the year ended 30 June 2016 - continued

Assumptions used in valuing the options issued are as follows:

Grant Date	Expiry Date	Fair value per option	Exercise price	Price of shares on grant date	Expected Volatility	Risk free interest rate	Dividend yield
8 Apr 2016	30 Dec 2019	0.8 cents	2 cents	1 cent	152%	2.0%	-

Each option entitles the holder to purchase one ordinary share in the Company. The estimated value disclosed above is calculated at the date of grant using the Black-Scholes option pricing model.

Other than the above, no options over unissued ordinary shares in Carnavale Resources Limited were granted to, were forfeited by, or were exercised by key management personnel of the Company (as part of their remuneration).

The Company has not granted any options over unissued ordinary shares since the end of the financial year to any Directors or officers as part of their remuneration.

Performance Rights granted as part of remuneration for the year ended 30 June 2016

The Company has not granted any performance rights as part of remuneration during or since the end of the financial year to any Directors or officers as part of their remuneration.

Shareholdings of key management personnel

Year ended 30 June 2016

	Balance at 1 July 2015	Granted as remuneration	Net other change (i) (ii)	Balance at 30 June 2016
Directors				
R Gajewski	18,960,000	-	25,000,000	43,960,000
A Beckwith	16,161,370	-	7,500,000	23,661,370
R Brans	2,000,000	-	-	2,000,000
A Chapman	5,045,900	-	1,250,000	6,295,900
K Eckhof (ii)	3,333,333	-	(3,333,333)	-
Total	45,500,603	-	30,416,667	75,917,270

- (i) In February and April 2016, the Company completed a placement of 201,214,652 shares at 0.8 cents per share to raise \$1,609,717. Having received shareholder approval for participation in the placement Mr Gajewski subscribed for 25,000,000 shares, Mr Beckwith subscribed for 7,500,000 shares and Mr Chapman subscribed for 1,250,000 shares.
- (ii) Mr Eckhof resigned as a director during the year ended 30 June 2016.

Option holdings of key management personnel

Year ended 30 June 2016

	Balance at 1 July 2015	Granted as remuneration	Net other change (i)	Balance at 30 June 2016
Directors				
R Gajewski	19,523,132	13,000,000	-	32,523,132
A Beckwith	6,666,600	4,000,000	-	10,666,600
R Brans	4,000,000	1,000,000	-	5,000,000
A Chapman	1,333,400	1,000,000	-	2,333,400
K Eckhof (i)	6,666,666	-	(6,666,666)	-
Total	38,189,798	19,000,000	(6,666,666)	50,523,132

- (i) Mr Eckhof resigned as a director during the year ended 30 June 2016.

**CARNAVALE RESOURCES LIMITED
DIRECTORS' REPORT**

Performance share holdings of key management personnel – Year ended 30 June 2016

Year ended 30 June 2016

	Balance at 1 July 2015	Granted as remuneration	Net other change (i) (ii) (iii)	Balance at 30 June 2016
Directors				
R Gajewski	2,880,000	-	(1,440,000)	1,440,000
A Beckwith	11,326,360	-	(5,663,180)	5,663,180
R Brans	-	-	-	-
A Chapman	4,950,000	-	(2,475,000)	2,475,000
K Eckhof	-	-	-	-
Total	19,156,360	-	9,578,180	9,578,180

- (i) The Performance Shares were split evenly between A Class Convertible Performance Shares and B Class Convertible Performance Shares.
- (ii) The Company issued these Performance Shares as consideration for the acquisition of 100% of the share capital of Tojo to Tojo shareholders. Mr Gajewski, Mr Beckwith and Mr Chapman were Tojo shareholders and received these shares in proportion to their shareholding in Tojo.
- (iii) In February 2016, Carnavale terminated the Little Butte Option Agreement and the A Class Convertible Performance Shares were redeemed by the Company for a nominal sum in accordance with the terms of issue of the Performance Shares.

End of Remuneration report

SHARE OPTIONS

As at the date of this report, there are 246,208,836 options over unissued ordinary shares in the Company comprising.

	Number	Exercise Price (cents)	Expiry Date
Unlisted Options	186,208,836	3	30 November 2016
Unlisted Options	60,000,000	2	30 December 2019

These options do not entitle the holder to participate in any share issue of the Company or any other body corporate. There are no options to subscribe for shares in any controlled entity.

Options issued during the year were as follows:

- In April 2016, the Company completed a placement of 40 million options exercisable at 2 cents each and an expiry date of 30 December 2019 at an issue price of 0.001 cents to raise \$400.
- In April 2016, following shareholder approval received at the general meeting of shareholders held on 23 March 2016, a total of 20 million options were issued to Mr Gajewski (13,000,000 options), Mr Beckwith (4,000,000 options), Mr Brans (1,000,000), Mr Chapman (1,000,000 options) and Mr Jurman (1,000,000 options). The options expire on 30 December 2019 and are exercisable at 2 cents each.

There were no options issued after 30 June 2016 and up to the date of this report.

Shares issued on exercise of options

During or since the end of the financial year, the Company issued 500,000 ordinary shares as a result of the exercise of options.

CARNAVALE RESOURCES LIMITED DIRECTORS' REPORT

PERFORMANCE SHARES

As at the date of this report, there are no Performance Shares outstanding in the Company.

Performance Shares issued during the previous financial year ended 30 June 2015 were as follows:

- a) 21 million A Class Convertible Performance Shares will have the right to convert to 21 million Shares upon the successful completion of a JORC Code compliant indicated mineral resource of not less than 500,000 ounces of gold or gold equivalent at greater than or equal to 0.8g/tonne gold or gold equivalent in respect of the Little Butte Project or if a decision to mine is made based on a preliminary feasibility study on the Little Butte Project within 3 years from the date of issue of the Performance Shares; and
- b) 21 million B Class Convertible Performance Shares will have the right to convert to 21 million Shares upon the successful completion of a JORC Code compliant indicated mineral resource of not less than 500,000 ounces of gold or gold equivalent at greater than or equal to 0.8g/tonne gold or gold equivalent in respect of the Red Hills Project or if a decision to mine is made based on a preliminary feasibility study on the Red Hills Project within 4 years from the date of issue of the Performance Shares.

In February 2016, Carnavale terminated the Little Butte Option Agreement and 21 million A Class Convertible Performance Shares were redeemed by the Company for a nominal sum in accordance with the terms of issue of the Performance Shares.

Subsequent to year end, Carnavale withdrew from the Red Hills Project and 21 million B Class Convertible Performance Shares were redeemed by the Company for a nominal sum in accordance with the terms of issue of the Performance Shares.

There were no Performance Shares issued after 30 June 2016 and up to the date of this report.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

In accordance with the constitution, except as may be prohibited by the Corporations Act 2001, every officer or agent of the Consolidated Entity shall be indemnified out of the property of the Consolidated Entity against any liability incurred by him in his capacity as Officer or agent of the Consolidated Entity or any related corporation in respect of any act or omission whatsoever and howsoever occurring or in defending any proceedings, whether civil or criminal.

During the period the Company agreed to pay an annual insurance premium of \$8,077 in respect of directors' and officers' liability and legal expenses' insurance contracts, for directors, officers and employees of the Company. The insurance premium relates to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever the outcome.
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2016 has been received and forms part of the directors' report and can be found on page 24 of the financial report.

**CARNAVALE RESOURCES LIMITED
DIRECTORS' REPORT**

NON - AUDIT SERVICES

There have been no non-audit services provided by the Company's auditor during the year (2015: Nil).

Signed in accordance with a resolution of the directors made pursuant to s 298(2) of the Corporations Act 2001.

On behalf of the Directors.



ANDREW BECKWITH
Managing Director

Dated this 29th day of September 2016.
Perth, Western Australia

CARNAVALE RESOURCES LIMITED CORPORATE GOVERNANCE STATEMENT

The Board is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable. The Company's governance approach aims to achieve exploration, development and financial success while meeting stakeholders' expectations of sound corporate governance practices by proactively determining and adopting the most appropriate corporate governance arrangements.

ASX Listing Rule 4.10.3 requires listed companies to disclose in their Annual Report the extent to which they have complied with the ASX Best Practice Recommendations of the ASX Corporate Governance Council in the reporting period. A description of the Company's main corporate governance practices is set out below. The Corporate Governance Statement is current as at 30 June 2016, and has been approved by the Board of Directors. All these practices, unless otherwise stated, were in place for the entire year. They comply with the *ASX Corporate Governance Principles and Recommendations (3rd edition)*.

The Company's website at www.carnavaleresources.com contains a corporate governance section that includes copies of the Company's corporate governance policies.

Principle 1: Lay solid foundations for management and oversight

Recommendation 1.1:

Companies should disclose the respective roles and responsibilities of its board and management and those matters expressly reserved to the Board and those delegated to management and disclose those functions.

The Board's role is to govern the Company rather than to manage it. In governing the Company, the Directors must act in the best interests of the Company as a whole. It is the role of the senior management to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

In performing its role, the Board's specific responsibilities include:

- endorsement of the strategic direction for Carnavale's business strategies and objectives;
- approving policies covering the management of business risks, safety and occupational health, community and environmental issues;
- monitoring Carnavale's operational and financial position and performance;
- identifying the principal risks faced by Carnavale and ensuring that appropriate control and monitoring systems are in place to manage the impact of these risks;
- ensuring that Carnavale's financial and other reporting mechanisms result in adequate, accurate and timely information being provided to the Board;
- approving processes, procedures and systems to ensure that financial results are appropriately and accurately reported on a timely basis;
- ensuring that shareholders and the financial market as a whole are fully informed of all material developments in relation to Carnavale and its businesses;
- appointing and, where appropriate, removing the Managing Director, approving other key executive appointments including the Company Secretary, and planning for executive succession;
- overseeing and evaluating the performance of the Managing Director and other senior executives in the context of Carnavale's strategies and objectives;
- ensuring processes and procedures are in place for evaluating the performance of the Board and each Director;
- reviewing and approving executive remuneration and general salary and bonus policy;
- approving Carnavale's budgets and business plans and monitoring the progress of major capital expenditures, capital management, acquisitions and divestitures;
- reviewing and approving Carnavale's internal compliance and control systems and codes of conduct;
- approving processes, procedures and systems to ensure Carnavale's compliance with all laws, governmental regulations and accounting standards; and
- approving processes, procedures and systems to ensure that Carnavale conducts its business openly and ethically in accordance with the Company's code of conduct.

The Managing Director (MD) is responsible for the attainment of the Company's goals and vision for the future, in accordance with the strategies, policies, programs and performance requirements approved by the Board.

The MD's specific responsibilities include:

CARNAVALE RESOURCES LIMITED CORPORATE GOVERNANCE STATEMENT

- Responsibility for the achievement of corporate goals and objectives;
- Development of short, medium and long term corporate strategies and planning to achieve the Company's vision and overall business objectives;
- Implementing and monitoring strategy and reporting/presenting to the Board on current and future initiatives;
- Advise the Board regarding the most effective organisational structure and oversee its implementation;
- Assessment of business opportunities of potential benefit to the Company;
- Establish and maintain effective and positive relationships with Board members, shareholders, the investment community and other government and business liaisons;
- Undertake the role of key company spokesperson;
- Recommend policies to the Board in relation to a range of organisational issues including delegations of authority, consultancies and performance incentives;
- Ensure statutory, legal and regulatory compliance and comply with corporate policies and standards;
- Ensure appropriate risk management practices and policies are in place; and
- Select and appoint staff.

This statement of matters reserved for the Board and areas of delegated authority to the Managing Director is contained in the Board Charter posted on the Company's website.

Recommendation 1.2:

Companies should undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director and provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.

The Company undertakes checks on any person who is being considered as a director. These checks may include character, experience, education and financial history and background.

All security holder releases will contain material information about any candidate to enable an informed decision to be made on whether or not to elect or re-elect a director.

Recommendation 1.3:

Companies should have a written agreement with each director and senior executive setting out the terms of their appointment.

Mr Beckwith has a formal employment contract and the non-executive directors have a letter of appointment including a director's interest agreement with respect to disclosure of security interests.

Recommendation 1.4:

The Company Secretary should be accountable directly to the Board, through the chair, on all matters to do with the proper functioning of the Board.

The Company Secretary has a direct reporting line to the Board, through the Chair.

Recommendation 1.5:

The Company should establish a policy concerning diversity and disclose the policy or summary of the policy. The policy should include requirements for the Board to establish measureable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.

The Company recognises that a talented and diverse workforce is a key competitive advantage. The Company is committed to developing a workplace that promotes diversity. The Company's policy is to recruit and manage on the basis of competence and performance regardless of age, nationality, race gender, religious beliefs, sexuality, physical ability or cultural background. The Company has not yet formalised this policy into a written document. It is the Board's intention to formalise the policy at a time when the size of the Company and its activities warrants such a structure.

The Company has four staff (comprising the four directors), none of which is a woman. There are no women in senior executive positions or on the board.

CARNAVALE RESOURCES LIMITED CORPORATE GOVERNANCE STATEMENT

Recommendation 1.6:

The Company should have and disclose a process for periodically evaluating the performance of the Board, its committees and individual directors and whether a performance evaluation was undertaken in the reporting period in accordance with that process.

Due to the size of the Board and the nature of its business, it has not been deemed necessary to institute a formal documented performance review program of individuals. The Chairman conducted an informal review during the financial year whereby the performance of the Board as a whole and the individual contributions of each director were discussed. The board considers that at this stage of the Company's development an informal process is appropriate.

Recommendation 1.7:

The Company should have and disclose a process for periodically evaluating the performance of senior executives and whether a performance evaluation was undertaken in the reporting period in accordance with that process.

The Board undertakes a review of the Managing Director's performance, at least annually, including setting the goals for the coming year and reviewing the achievement of these goals.

Performance has been measured to date by the efficiency and effectiveness of the enhancement of the Company's mineral interest portfolio, the designing and implementation of the exploration and development programme, maintenance of relationships with joint venture partners and the securing of ongoing funding so as to continue its exploration and development activities. This performance evaluation is not based on specific financial indicators such as earnings or dividends as the Company is at the exploration stage and during this period is expected to incur operating losses.

Due to the size of the Company and the nature of its business, it has not been deemed necessary to institute a formal documented performance review program of senior executives. The Chairman conducted an informal review process whereby he discussed with the Managing Director the approach toward meeting the short and long term objectives of the Company. The board considers that at this stage of the Company's development an informal process is appropriate.

Principle 2: Structure the board to add value

Recommendation 2.1:

The Board should establish a Nomination Committee which the majority should be independent directors (including the Chair).

The Company does not have a nomination committee. 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 a nomination committee. The Board considers that no efficiencies or other benefits would be gained by establishing a separate nomination committee.

Directors are appointed under the terms of the Company's constitution. Appointments to the Board are based upon merit and against criteria that serves to maintain an appropriate balance of skills, expertise, and experience of the board. The categories considered necessary for this purpose are a blend of accounting and finance, business, technical and administration skills.

It is the policy of the Company that new Directors undergo an induction process in which they are given a full briefing on the Company. In order to achieve continuing improvement in Board performance, all Directors are encouraged to undergo continual professional development. Specifically, Directors are provided with the resources and training to address skills gaps where they are identified.

The Constitution of the Company requires one third of the directors, other than the Managing Director, to retire from office at each Annual General Meeting. Directors who have been appointed by the Board are required to retire from office at the next Annual General Meeting and are not taken into account in determining the number of directors to retire at that Annual General Meeting. Directors cannot hold office for a period in excess of three years or later than the third Annual General Meeting following their appointment without submitting themselves for re-election. Retiring directors are eligible for re-election by shareholders.

This selection, nomination and appointment process is detailed in the Board Charter on the company website.

**CARNAVALE RESOURCES LIMITED
CORPORATE GOVERNANCE STATEMENT**

Recommendation 2.2:

The Company should have and disclose a Board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership.

	Chairman	Managing Director	Non-executive Directors	Company Secretary
Leadership	X	X	X	X
Strategy / Risk	X	X	X	X
Communication	X	X		
Fundraising	X	X	X	X
Mining Industry	X	X	X	X
Governance	X		X	X
Health, safety and environment		X	X	
Financial acumen	X	X	X	X

Each director has the right of access to all relevant company information and to the Company's employees and, subject to prior consultation with the Chairperson, may seek independent professional advice from a suitably qualified adviser at the Company's expense. The director must consult with an advisor suitably qualified in the relevant field, and obtain the Chairman's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the director is made available to all other members of the Board.

Recommendation 2.3:

The Company should disclose the names of the directors considered to be independent directors and length of service of each director.

The names, experience and responsibilities of Directors of the Company in office at the date of this statement are set out in the Directors' Report (including names of the directors considered to be independent directors and length of service of each director).

Recommendation 2.4:

A majority of the Board of the Company should be independent directors.

In assessing whether a director is classified as independent, the Board considers the independence criteria set out in the ASX Corporate Governance Council Recommendation 2.1 and other facts, information and circumstances deemed by the Board to be relevant. Using the ASX Best Practice Recommendations on the assessment of the independence of Directors, the Board considers that of a total of four Directors, two are considered to be independent, Mr Rhett Brans and Mr Andrew Chapman and therefore the Company does currently not have a majority of independent directors.

Mr Andrew Beckwith is the Managing Director of the Company and is not considered to be independent. Mr Gajewski is employed in an executive capacity by the Company and is not considered to be independent. The Company considers that each of the directors possesses the skills and experience suitable for building the Company and that the current composition of the Board is adequate for the Company's current size and operations.

Recommendation 2.5:

The Chair of the Board should be an independent director, and should not be the CEO of the Company.

The Chairman is responsible for leadership of the Board, for ensuring that the Board functions effectively, and for communicating the views of the Board to the public.

Mr Gajewski was appointed Executive Chairman from 28 February 2011 and therefore exercises the role of Chairman and Executive director. The Company therefore does not comply with ASX Corporate Governance Council Recommendation 2.5 which states the Chairman should be an independent director.

CARNAVALE RESOURCES LIMITED CORPORATE GOVERNANCE STATEMENT

Effective from 29 July 2014, Mr Andrew Beckwith was appointed as Managing Director and is responsible for implementing Company strategies and policies.

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 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 intention to review its composition on a continual basis as the Company's expands its activities and greater demands and skills amongst directors become necessary.

Recommendation 2.6:

The Company should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.

The Board Charter provides for induction and professional development for the Board.

Principle 3: Promote ethical and responsible decision making

Companies should have a Code of Conduct for its directors, senior executives and employees.

The Company has developed a Code of Conduct (the Code), which has been endorsed by the Board and applies to all employees, Directors and officers. The Code may be amended from time to time as necessary to ensure it reflects the practices necessary to maintain confidence in the Company's integrity and to take into account legal obligations and reasonable expectations of the Company's stakeholders. The Code outlines the responsibility and accountability of Company personnel to report and investigate reports of unethical practices.

This Code of Conduct can be found on the company website.

Trading in Company securities is regulated by the Corporations Act and the ASX Listing Rules. The Board makes all Directors, officers and employees aware on appointment that it is prohibited to trade in the Company's securities whilst that Director, officer or employee is in the possession of price sensitive information.

For details of shares held by Directors and officers please refer to the Directors' Report. Directors are required to report to the Company Secretary any movements in their holdings of Company securities, which are reported to ASX in the required timeframe prescribed by the ASX Listing Rules.

This Share Trading Policy can be found on the company website.

Principle 4: Safeguard Integrity in Financial reporting

Recommendation 4.1

The Board should have an Audit Committee.

The Company does not have an audit committee. 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. The Board considers that no efficiencies or other benefits would be gained by establishing a separate audit committee.

The Company requires external auditors to demonstrate quality and independence. The performance of the external auditor is reviewed and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs.

It is HLB Mann Judd's policy to rotate audit engagement partners on listed companies at least every 5 years.

CARNAVALE RESOURCES LIMITED CORPORATE GOVERNANCE STATEMENT

Recommendation 4.2

The Board of the Company should, before it approves the Company's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

The Board receives the necessary declaration in writing from the Managing Director and the Company Secretary/Financial Controller with respect to the financial records, the financial statements and the system of risk management and internal control before it approves the Company's financial statements for a financial period.

Recommendation 4.3

The Company should ensure that the external auditor is present at the AGM and be available to answer questions from security holders relevant to the audit.

The Company invites the auditor or representative of the auditor to the AGM.

Principle 5: Making Timely and Balanced Disclosure

Recommendation 5.1:

Companies should have a written policy for complying with its continuous disclosure obligations under the Listing Rules.

The Company has developed an ASX Listing Rules Disclosure Strategy which has been endorsed by the Board. The ASX Listing Rules Disclosure Strategy ensures compliance with ASX Listing Rules and Corporations Act 2001 obligations to keep the market fully informed of information which may have a material effect on the price or value of its securities and outlines accountability at a senior executive level for that compliance. All ASX announcements are to be posted to the Company's website as soon as possible after confirmation of receipt is received from ASX, including all financial reports.

Principle 6 – Respect the rights of security holders

Recommendation 6.1:

Companies should provide information about itself and its governance to investors via its website.

The Company is committed to maintaining a Company website with general information about the Company and its operations, information about governance and information specifically targeted at keeping the Company's shareholders informed about the Company. In particular, where appropriate, after confirmation of receipt by the ASX, the following are posted to the Company's website:

- relevant announcements made to the market via the ASX;
- notices of meetings;
- investment updates;
- company presentations and media releases;
- copies of press releases and announcements for (at least) the preceding three years; and
- copies of annual, half-yearly and quarterly reports including financial statements for (at least) the preceding three years.

Recommendations 6.2 and 6.3:

Companies should design and implement an investor relations program to facilitate two-way communication with investors.

Companies should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.

The Managing Director makes himself available to meet shareholders and regularly responds to enquiries made via telephone or email. The Managing Director also completes periodic investor presentations to facilitate engagement with investors and other financial market participants.

CARNAVALE RESOURCES LIMITED CORPORATE GOVERNANCE STATEMENT

The Board encourages full participation of shareholders at the Annual General Meeting. In preparing for general meetings of the Company, the Company drafts the notice of meeting and related explanatory information so that shareholders are provided with all of the information that is relevant to shareholders in making decisions on matters to be voted on by them at the meeting. The Company allows shareholders a reasonable opportunity to ask questions of the Board of Directors and to otherwise participate in the meeting. The external auditor of the Company is asked to attend each Annual General Meeting and to be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report. Important issues are presented to the shareholders as single resolutions. The shareholders are also responsible for voting on the appointment of Directors.

Recommendation 6.4:

Companies should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.

Information about the Company is regularly emailed to all shareholders who lodge their email contact details with the Company. Information on lodging email addresses and on submitting information requests with the Company is available on the Company's website. Shareholders can receive communications from, and send communications to, the Company's security registry electronically.

Principle 7 – Recognise and manage risk

Recommendation 7.1:

The Board should have a committee or committees to oversee risk.

The Company is not currently of a size to require the formation of committees to oversee risk. The full Board has the responsibility for the risk management, compliance and internal controls systems of the Company.

Management, through the Managing Director, is responsible for designing, implementing and reporting on the adequacy of the Company's risk management and internal control system. The Company's risk management policy is designed to provide the framework to identify, assess, monitor and manage the risks associated with the Company's business. The Company adopts practices designed to identify significant areas of business risk and to effectively manage those risks in accordance with the Company's risk profile. The risks involved in a resources sector company and the specific uncertainties for the Company continue to be regularly monitored and the Managing Director regularly appraises the Board as to the effectiveness of the Company's management of its material business risks. All proposals reviewed by the Board include a consideration of the issues and risks of the proposal.

Recommendation 7.2:

The Board should review the entity's risk management framework at least annually to satisfy itself that it continues to be sound and disclose whether such a review has taken place.

The Board considers risks and discusses risk management at each Board meeting. Review of the risk management framework is an on-going process rather than an annual formal review. The Company's main areas of risk include:

- exploration;
- security of tenure including native title risk;
- joint venture management;
- new project acquisitions;
- environment;
- occupational health and safety;
- government policy changes;
- funding;
- commodity prices;
- retention of key staff;
- financial reporting; and
- continuous disclosure obligations.

CARNAVALE RESOURCES LIMITED CORPORATE GOVERNANCE STATEMENT

Recommendation 7.3:

The Company should disclose if it has an internal audit function.

The Company does not have an internal audit function. The Board considers that the Company is not currently of a size, nor are its affairs of such complexity, to justify the formation of an internal audit function at this time. The Board as a whole regularly evaluates and improves the effectiveness of its risk management (refer above) and internal control processes.

Recommendation 7.4:

The Company should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.

The Company is of the view that it has adequately disclosed the nature of its operations and relevant information on exposure to economic, environmental and social sustainability risks. Other than general risks associated with the mineral exploration industry, the Company does not currently have material exposure to environmental and social sustainability risks.

Principle 8 – Remunerate fairly and responsibly

Recommendation 8.1:

The Board should have a Remuneration Committee.

The Company does not have a remuneration committee. 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 a remuneration committee. The Board considers that no efficiencies or other benefits would be gained by establishing a separate remuneration committee.

Recommendation 8.2:

A company should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.

The Company provides disclosure of all Directors and executives remuneration in its annual report.

The remuneration policy of Carnavale has been designed to align directors' objectives with shareholder and business objectives by providing a fixed remuneration component which is assessed on an annual basis in line with market rates. The Board of Carnavale believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best directors to run and manage the company. Directors' remuneration is approved by resolutions of the Board. The Board's policy for determining the nature and amount of remuneration for Board members is as follows:

Non-Executive Directors

The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. Payments to the non-executive Directors are reviewed annually, based on market practice, duties and accountability. The maximum aggregate amount of fees that can be paid to non-executive Directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive Directors are not linked to the performance of the Company. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company. Non-executive Directors are entitled to receive incentive options (subject to shareholder approval) as it is considered an appropriate method of providing sufficient reward whilst maintaining cash reserves. There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors. The value of shares and incentive options where they are granted to non-executive directors are calculated using the Black-Scholes-Merton option pricing model.

CARNAVALE RESOURCES LIMITED CORPORATE GOVERNANCE STATEMENT

Executives

The senior executive of the Company is the Managing Director. The Company is committed to remunerating its senior executives in a manner that is market-competitive and consistent with best practice as well as supporting the interests of shareholders. Consequently, the remuneration of senior executives may be comprised of the following:

- fixed salary that is determined from a review of the market and reflects core performance requirements and expectations;
- a performance bonus designed to reward actual achievement by the individual of performance objectives and for materially improved Company performance;
- participation in any incentive option issues with thresholds approved by shareholders; and
- statutory superannuation.

By remunerating senior executives through performance and long-term incentive plans in addition to their fixed remuneration, the Company aims to align the interests of senior executives with those of shareholders and increase Company performance. The value of shares and incentive options where they are to be granted to senior executives are calculated using the Black-Scholes-Merton option pricing model.

The objective behind using this remuneration structure is to drive improved Company performance and thereby increase shareholder value as well as aligning the interests of executives and shareholders.

The Board may use its discretion with respect to the payment of bonuses, incentive share options and other incentive payments.

For details of remuneration paid to Directors and officers for the financial year please refer to the Directors' Report.

Recommendation 8.3:

A Company which has an equity based remuneration scheme should have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme and disclose that policy or summary of it.

The Company does not have an equity based remuneration scheme which is affected by this recommendation.

Recipients of equity-based remuneration (eg. incentives options) are not permitted to enter into any transactions that would limit the economic risk of options or other unvested entitlements.

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Carnavale Resources Limited for the year ended 30 June 2016, 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 audit; and
- b) any applicable code of professional conduct in relation to the audit.

Perth, Western Australia
29 September 2016



L Di Giallonardo
Partner

CARNAVALE RESOURCES LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016

	Note	Consolidated 2016 \$	2015 \$
Revenue	3	29,562	76,718
		<u>29,562</u>	<u>76,718</u>
Expenditure			
Administrative expenses		(489,659)	(533,584)
Exploration expenditure impaired	11	(2,150,253)	(22,962)
Due diligence expenses		(130,164)	-
Option fee paid		-	(52,500)
Share based payment expense	4	(161,204)	(20,000)
		<u>(2,901,718)</u>	<u>(552,328)</u>
Loss before related income tax benefit		(2,901,718)	(552,328)
Income tax benefit	5	<u>-</u>	<u>-</u>
Net loss attributable to members of the parent entity		(2,901,718)	(552,328)
Other comprehensive income for the period, net of tax <i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange gain arising on translation of foreign operations		<u>17,275</u>	<u>2,722</u>
Total comprehensive loss for the year		<u>(2,884,443)</u>	<u>(549,606)</u>
Loss per share			
Basic – cents	17	<u>(0.90)</u>	<u>(0.28)</u>
Diluted – cents	17	<u>(0.90)</u>	<u>(0.28)</u>

The accompanying notes form part of these financial statements

CARNAVALE RESOURCES LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	Note	Consolidated 2016 \$	2015 \$
Current assets			
Cash and cash equivalents	18(a)	1,399,985	1,253,481
Receivables	8	14,493	17,218
Other assets	9	8,353	51,122
Total current assets		<u>1,422,831</u>	<u>1,321,821</u>
Non-current assets			
Plant and equipment	10	-	689
Exploration and evaluation expenditure	11	30,627	1,256,182
Other assets	12	-	30,158
Total non-current assets		<u>30,627</u>	<u>1,287,029</u>
Total assets		<u>1,453,458</u>	<u>2,608,850</u>
Current liabilities			
Trade and other payables	13	85,512	47,931
Total current liabilities		<u>85,512</u>	<u>47,931</u>
Total liabilities		<u>85,512</u>	<u>47,931</u>
Net assets		<u>1,367,946</u>	<u>2,560,919</u>
Equity			
Issued capital	14	26,709,760	25,179,894
Reserves	15	1,482,957	1,304,078
Accumulated losses	16	(26,824,771)	(23,923,053)
Total equity		<u>1,367,946</u>	<u>2,560,919</u>

The accompanying notes form part of these financial statements

CARNAVALE RESOURCES LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016

	Consolidated			
	Issued capital \$	Reserves \$	Accumulated losses \$	Total \$
Balance at 1 July 2014	23,614,874	1,249,661	(23,370,725)	1,493,810
Loss attributable to members of the parent entity	-	-	(552,328)	(552,328)
Exchange gain on translation of foreign operations	-	2,722	-	2,722
Total comprehensive loss for the year	-	2,722	(552,328)	(549,606)
Shares issued during the year (net of issue costs)	1,565,020	-	-	1,565,020
Fair value of options issued	-	51,695	-	51,695
Balance at 30 June 2015	<u>25,179,894</u>	<u>1,304,078</u>	<u>(23,923,053)</u>	<u>2,560,919</u>

	Consolidated			
	Issued capital \$	Reserves \$	Accumulated losses \$	Total \$
Balance at 1 July 2015	25,179,894	1,304,078	(23,923,053)	2,560,919
Loss attributable to members of the parent entity	-	-	(2,901,718)	(2,901,718)
Exchange gain on translation of foreign operations	-	17,275	-	17,275
Total comprehensive loss for the year	-	17,275	(2,901,718)	(2,884,443)
Shares and options issued during the year (net of issue costs)	1,529,866	400	-	1,530,266
Fair value of options issued	-	161,204	-	161,204
Balance at 30 June 2016	<u>26,709,760</u>	<u>1,482,957</u>	<u>(26,824,771)</u>	<u>1,367,946</u>

The accompanying notes form part of these financial statements

CARNAVALE RESOURCES LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016

	Note	Consolidated	
		2016 \$	2015 \$
Cash flows from operating activities			
Payments to suppliers		(434,142)	(513,565)
Payments for due diligence and project generation expenses		(132,346)	-
Interest received		10,517	32,163
Net cash outflows from operating activities	18(b)	<u>(555,971)</u>	<u>(481,402)</u>
Cash flows from investing activities			
Payments for exploration and development expenditure		(828,917)	(1,022,994)
Refund of security bond		9,375	-
Payments for acquisition of exploration tenements		(30,000)	-
Payments for mineral licence security bond		-	(20,783)
Cash acquired on acquisition of Tojo Minerals Pty Ltd		-	99,399
Net cash outflows from investing activities		<u>(849,542)</u>	<u>(944,378)</u>
Cash flows from financing activities			
Proceeds from issue of shares and options		1,624,717	1,169,486
Issue costs - shares and options		(94,851)	(45,271)
Net cash inflows from financing activities		<u>1,529,866</u>	<u>1,124,215</u>
Net increase / (decrease) in cash and cash equivalents held		124,353	(301,565)
Effect of foreign exchange fluctuations on cash held		22,151	27,547
Cash and cash equivalents at the beginning of the financial year		<u>1,253,481</u>	<u>1,527,499</u>
Cash and cash equivalents at the end of the financial year	18(a)	<u>1,399,985</u>	<u>1,253,481</u>

The accompanying notes form part of these financial statements

**CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

1. CORPORATE INFORMATION

Carnavale Resources Limited is a company limited by shares, incorporated in Australia. The Company's shares are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activity of the Group is mineral exploration.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements are general purpose financial statements, which have been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standards and Interpretations and complies with other requirements of the law. The financial statements have also been prepared on a historical cost basis. Cost is based on the fair values of the consideration given in exchange for assets.

The financial report is presented in Australian dollars.

The accounting policies detailed below have been consistently applied to all of the years presented unless otherwise stated. The financial statements are for the consolidated entity consisting of Carnavale Resources Limited and its subsidiaries.

(b) Adoption of new and revised standards

In the year ended 30 June 2016, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group's operations and effective for the current annual reporting period. It has been determined by the Directors that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the Group's business and, therefore, no change is necessary to Group accounting policies.

The Directors have also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2016. 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 the Group and, therefore, no change is necessary to Group accounting policies.

(c) Statement of compliance

The financial statement of Carnavale Resources Limited (the Company) for the year ended 30 June 2016 was authorised for issue in accordance with a resolution of the Directors on 29th September 2016.

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

CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Carnavale Resources Limited ('company' or 'parent entity') as at 30 June 2016 and the results of all subsidiaries for the year then ended. Carnavale Resources Limited and its subsidiaries are referred to in this financial report as the group or the consolidated entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control exists where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing when the Group controls another entity.

The acquisition of subsidiaries has been accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition. Accordingly, the consolidated financial statements include the results of subsidiaries for the period from their acquisition.

(e) Income tax

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither that accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Income tax (continued)

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of comprehensive income.

(f) Exploration and evaluation expenditure

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:

- (i) the rights to tenure of the area of interest are current; and
- (ii) at least one of the following conditions is also met:
 - (a) the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or
 - (b) 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 assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortised of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (for the cash generating unit(s) to which it has been allocated being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

(g) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

(h) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Employee benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date (where applicable). Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions are made by the Group to employee superannuation funds and are charged as expenses when incurred (where applicable).

(j) Impairment of assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired and makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether any previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(k) Earnings per share

Basic earnings per share is calculated as net profit / (loss) attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

(l) 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 Tax Office ("ATO"). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows 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 YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Investments

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments, which are classified as held for trading and available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised in the statement of comprehensive income.

Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of comprehensive income.

(n) Financial assets

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes party to the contractual provisions of the financial instrument. A financial asset is derecognised when the contractual rights to the cash flows from the financial assets expire or are transferred and no longer controlled by the entity. A financial liability is removed from the statement of financial position when the obligation specified in the contract is discharged or cancelled or expires.

Financial assets and financial liabilities classified as held for trading are measured at fair value through profit or loss.

Upon initial recognition a financial asset or financial liability is designated as at fair value through profit or loss when:

- (a) an entire contract containing one or more embedded derivatives is designated as a financial asset or financial liability at fair value through profit or loss.
- (b) doing so results in more relevant information, because either:
 - (i) it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising gains or losses on them on different bases; or
 - (ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured are not designated as at fair value through profit or loss.

A gain or loss arising from a change in the fair value of a financial asset or financial liability classified as at fair value through profit or loss is recognised in profit or loss.

Financial assets not measured at fair value comprise:

- (a) loans and receivables being non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are measured at amortised cost using the effective interest rate method;
- (b) held-to-maturity investments being non-derivative financial assets with fixed or determinable payments and fixed maturity that will be held to maturity. These are measured at amortised cost using the effective interest method; and
- (c) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. These are measured at cost together with derivatives that are linked to and must be settled by the delivery of such investments.

Available-for-sale financial assets are non-derivative financial assets which are designated as available-for-sale or that are not classified as loans and receivables, held-to-maturity investments or financial assets as at fair value through profit or loss.

CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Financial assets (continued)

A gain or loss arising from a change in the fair value of an available-for-sale financial asset is recognised directly in equity, through the statement of changes in equity (except for impairment losses and foreign exchange gains and losses) until the financial asset is derecognised at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

Regular purchases of financial assets are accounted for as follows:

- financial assets held for trading – at trade date
- held-to-maturity investments – at trade date
- loans and receivables – at trade date
- available-for-sale financial assets – at trade date

Except for the following all financial liabilities are measured at amortised cost using the effective interest rate method.

- (a) financial liabilities at fair value through profit and loss and derivatives that are liabilities measured at fair value.
- (b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or are accounted for using the continuing involvement approach.

The amortised cost of a financial asset or a financial liability is the amount initially recognised minus principal repayments, plus or minus cumulative amortisation of any difference between the initial amount and maturity amount and minus any write-down for impairment or uncollectability.

(o) Foreign currency translation

Both the functional and presentation currency of Carnavale Resources Limited is Australian dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance date.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date the assets and liabilities of this subsidiary are translated into the presentation currency of Carnavale Resources Limited at the rate of exchange ruling at the balance date and its statement of financial performance is translated at the weighted average exchange rate for the year.

The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) *Plant and equipment*

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end. Depreciation is calculated on a diminishing value basis over the estimated useful life of the assets as follows:

Plant and equipment – 4 years

(q) *Trade and other payables*

Trade payables and other payables are carried at cost and represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year that are unpaid and arise when the consolidated entity becomes obliged to make future payments in respect of the purchase of these goods and services.

(r) *Issued capital*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(s) *Segment Reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of Carnavale Resources Limited.

(t) *Critical accounting estimates and judgements*

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised if it affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Exploration and evaluation expenditure

The Group's accounting policy for exploration and evaluation expenditure is set out in Note 2 (f). The application of this policy necessarily requires the Board to make certain estimates and assumptions as to future events and circumstances. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under this policy, it is concluded that the expenditures are unlikely to be recoverable by future exploitation or sale, then the relevant capitalised amount will be written off to the statement of comprehensive income.

The Board determines when an area of interest should be abandoned. When a decision is made that an area of interest is not commercially viable, all costs that have been capitalised in respect of that area of interest are written off. The Directors' decision is made after considering the likelihood of finding commercially viable reserves.

CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Critical accounting estimates and judgements (continued)

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees and consultants by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of options is determined using a Black-Scholes-Merton model, using various assumptions.

(u) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms. Factors considered by the Group in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Group. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term, discounting is not applied in determining the allowance.

When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

(v) Parent Entity Financial Information

The financial information for the parent entity, Carnavale Resources Ltd, disclosed in note 25 has been prepared on the same basis as the consolidated financial statements.

CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

3. REVENUE

	Consolidated	
	2016	2015
	\$	\$
Other revenue		
Interest earned	10,517	29,887
Foreign currency exchange gains	19,045	46,831
	29,562	76,718

4. EXPENSES

	Consolidated	
	2016	2015
	\$	\$
Loss before income tax includes the following specific expenses:		
Share based payment expense	161,204	20,000
Depreciation of plant and equipment	689	2,750

5. INCOME TAX

- (a) **Prima facie tax benefit at 30% on loss from ordinary activities is reconciled to the income tax provided in the financial statements**

	Consolidated	
	2016	2015
	\$	\$
Loss before income tax	(2,901,718)	(552,328)
Prima facie income tax benefit at 30%	870,515	165,698
Tax effect of amounts which are not tax (deductible) / taxable in calculating taxable income:		
Due diligence / capital related costs	(46,380)	(17,293)
Exploration expenses incurred	(376,855)	235,105
Tax effect of capitalised share issue costs	20,219	20,158
Share based payment expense	(48,361)	-
Other non-deductible items	(71)	-
Income tax benefit adjusted for non (deductible) / taxable items	419,067	403,668
Deferred tax asset not brought to account	(419,067)	(403,668)
Income tax benefit	-	-

- (b) **Deferred tax assets**

The potential deferred tax asset arising from tax losses and temporary differences has not been recognised as an asset because recovery of tax losses is not yet considered probable.

	Consolidated	
	2016	2015
	\$	\$
Carry forward revenue losses	7,126,794	6,710,727
Carry forward capital losses	2,467,067	2,467,067
Capital raising costs	59,162	59,251
	9,671,853	9,237,045

The benefits will only be obtained if:

- (i) the companies in the group derive future assessable income of a nature and of an amount sufficient to enable the benefit from the deduction for the losses to be realised;

CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

5. INCOME TAX (continued)

(b) Deferred tax assets (continued)

- (ii) the companies continue to comply with the conditions for deductibility imposed by the Law; and
- (iii) no changes in tax legislation adversely affect the companies in realising the benefits from the deductions for the losses.

(c) Deferred tax liabilities

The potential deferred tax liability arising from capitalised exploration expenditure has not been recognised as a liability. This would reduce the potential deferred tax asset noted at (b) above.

	Consolidated	
	2016	2015
	\$	\$
Deferred exploration and evaluation expenditure	-	235,105

6. AUDITOR'S REMUNERATION

	Consolidated	
	2016	2015
	\$	\$
The auditor of Carnavale Resources Limited is HLB Mann Judd.		
Amounts received or due and receivable by the Company's auditors for:		
Auditing or reviewing the Company's financial statements	22,700	22,000
	22,700	22,000

7. KEY MANAGEMENT PERSONNEL

(a) Details of key management personnel

Directors

- R Gajewski (appointed 18 October 2006)
- A Beckwith (appointed 29 July 2014)
- R Brans (appointed 17 September 2013)
- A Chapman (appointed 31 March 2015)
- K Eckhof (appointed 1 January 2008, resigned 20 July 2015)

(b) Compensation of key management personnel

	Consolidated	
	2016	2015
	\$	\$
Short-term employee benefits	224,374	355,579
Post-employment benefits	4,180	2,850
Share-based payments	153,144	-
	381,698	358,429

Information regarding individual directors' compensation is provided in the Remuneration report on pages 9 to 12.

CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

7. KEY MANAGEMENT PERSONNEL (continued)

(c) Other key management personnel transactions

Accounting, secretarial and corporate service fees of \$95,852 (2015: \$91,028) and rental fees of \$29,906 (2015: \$31,891) were paid or payable during the year ended 30 June 2016 on normal terms and conditions to Corporate Consultants Pty Ltd, a company in which Mr Gajewski is a director and has a beneficial interest.

Corporate Consultants Pty Ltd previously held a rental security deposit of \$9,375 which was refunded during the year ended 30 June 2016 (Note 12).

8. CURRENT RECEIVABLES

	Consolidated	
	2016	2015
	\$	\$
Other receivables (i)	14,493	17,218
	14,493	17,218
	14,493	17,218

(i) Other receivables represents amounts outstanding for goods and services tax (GST), which are non-interest bearing, with repayment terms applicable under the relevant government authorities.

9. OTHER CURRENT ASSETS

	Consolidated	
	2016	2015
	\$	\$
Prepayments	8,353	51,122
	8,353	51,122
	8,353	51,122

10. PLANT AND EQUIPMENT

	Consolidated	
	2016	2015
	\$	\$
Plant and equipment, at cost	10,527	10,527
Less: accumulated depreciation	(10,527)	(9,838)
	-	689
	-	689
Balance at beginning of year	689	3,439
Additions	-	-
Depreciation expense	(689)	(2,750)
	-	689
	-	689

CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

11. EXPLORATION AND EVALUATION EXPENDITURE

	Consolidated	
	2016	2015
	\$	\$
Exploration and evaluation costs carried forward in respect of exploration areas of interest (i)	30,627	1,256,182
Opening balance	1,256,182	-
Acquisition costs – exploration licences	30,627	-
Acquisition costs incurred through acquisition of Tojo Minerals Pty Ltd – non-cash	-	472,500
Exploration expenditure incurred	894,071	806,644
Exploration expenditure impaired (ii)	(2,150,253)	(22,962)
	30,627	1,256,182

- (i) The ultimate recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas.
- (ii) During the year ended 30 June 2016, the Directors considered the carrying value of all carried forward exploration and evaluation and decided that it was appropriate for a write down of exploration expenditure of \$2,150,253, attributable to the Little Butte Project and the Red Hills project to be charged to the statement of comprehensive income due to the withdrawal from the Little Butte Option Agreement during the year and the withdrawal from the Red Hills Joint Venture subsequent to balance date.

12. OTHER NON-CURRENT ASSETS

	Consolidated	
	2016	2015
	\$	\$
Rental security deposit (Note 7 (c))	-	9,375
Mineral licence security bond	-	20,783
	-	30,158

13. TRADE AND OTHER PAYABLES

	Consolidated	
	2016	2015
	\$	\$
Current		
Trade and other payables (i)	85,512	47,931
	85,512	47,931

- (i) Trade and other payables amounts represent liabilities for goods and services provided to the Group prior to the end of the financial period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

14. ISSUED CAPITAL

(a) Issued capital

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

14. ISSUED CAPITAL (continued)

(b) Movements in share capital

	2016 Number	2015 Number	2016 \$	2015 \$
Balance at beginning of period	256,285,348	156,652,964	25,179,894	23,614,874
Share placement at an issue price of 0.8 cents each in February and April 2016	201,214,652	-	1,609,717	-
Exercise of options	500,000	-	15,000	-
Share placement at an issue price of 1.5 cents each in August and October 2014	-	34,632,384	-	519,486
Shares issued to acquire Tojo Minerals Pty Ltd in August and October 2014.	-	31,500,000	-	472,500
Shares issued as part of remuneration of consultant.	-	1,000,000	-	20,000
Share placement at an issue price of 2 cents each in June 2015.	-	32,500,000	-	650,000
Transaction costs arising from issue of securities	-	-	(94,851)	(96,966)
Balance at end of period	<u>458,000,000</u>	<u>256,285,348</u>	<u>26,709,760</u>	<u>25,179,894</u>

(c) Share options

Options to subscribe for ordinary shares in the capital of the Company have been granted as follows:

2016						
Exercise Period	Exercise Price	Opening Balance 1 July 2015	Options Issued 2015/2016	Options Exercised / Expired 2015/2016	Closing Balance 30 June 2016	
		Number	Number	Number	Number	
On or before November 2016	30 \$0.03	186,708,836	-	(500,000)	186,208,836	
On or before December 2019	30 \$0.02	-	60,000,000	-	60,000,000	
Total		<u>186,708,836</u>	<u>60,000,000</u>	<u>(500,000)</u>	<u>246,208,836</u>	

In April 2016, the Company completed a placement of 40 million options exercisable at 2 cents each and an expiry date of 30 December 2019 at an issue price of 0.001 cents to raise \$400.

In April 2016, following shareholder approval received at the general meeting of shareholders held on 23 March 2016, a total of 20 million options were issued to Mr Gajewski (13,000,000 options), Mr Beckwith (4,000,000 options), Mr Brans (1,000,000), Mr Chapman (1,000,000 options) and Mr Jurman (1,000,000 options).

2015						
Exercise Period	Exercise Price	Opening Balance 1 July 2014	Options Issued 2014/2015	Options Expired 2014/2015	Closing Balance 30 June 2015	
		Number	Number	Number	Number	
On or before November 2016	30 \$0.03	131,826,452	54,882,384	-	186,708,836	

CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

14. ISSUED CAPITAL (continued)

(c) Share options (continued)

In August and October 2014, the Company completed a placement of 34,632,384 shares at 1.5 cents per share together with 34,632,384 free attaching options exercisable at 3 cents each and an expiry date of 30 November 2016.

In June 2015, the Company completed a placement of 32.5 million shares at 2 cents per share together with 16.25 million options (on the same terms as disclosed above). The Company also issued 4 million options (on the same terms as disclosed above) to a third party for arranging the majority of the placement.

(d) Performance shares

Performance shares in the Company are as follows:

Ex. price	Expiry date	Opening balance	Granted during the year	Vested and converted into shares during the year	Forfeited during the year	Balance at end of year	Vested and exercisable at end of the year
		Number	Number	Number	Number	Number	Number
Nil	13-Mar 18	21,000,000 ⁽ⁱ⁾	-	-	(21,000,000)	-	-
Nil	13-Mar 19	21,000,000 ⁽ⁱⁱ⁾	-	-	-	21,000,000	-
		42,000,000	-	-	(21,000,000)	21,000,000	-

- (i) 21 million A Class Convertible Performance Shares were redeemed by the Company following a decision in February 2016 to terminate and withdraw from the Little Butte Option Agreement.
- (ii) 21 million B Class Convertible Performance Shares have the right to convert to 21 million Shares upon the successful completion of a JORC Code compliant indicated mineral resource of not less than 500,000 ounces of gold or gold equivalent at greater than or equal to 0.8g/tonne gold or gold equivalent in respect of the Red Hills Project or if a decision to mine is made based on a preliminary feasibility study on the Red Hills Project within 4 years from the date of issue of the Performance Shares.

Performance shares in the Company granted during the year ended 30 June 2015:

Ex. price	Expiry date	Opening balance	Granted during the year	Vested and converted into shares during the year	Forfeited during the year	Balance at end of year	Vested and exercisable at end of the year
		Number	Number	Number	Number	Number	Number
Nil	13-Mar 18	-	21,000,000	-	-	21,000,000	-
Nil	13-Mar 19	-	21,000,000	-	-	21,000,000	-
		-	42,000,000	-	-	42,000,000	-

CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

15. RESERVES

	Consolidated	
	2016	2015
	\$	\$
Option reserve (a)	1,462,960	1,301,356
Foreign currency translation reserve (b)	19,997	2,722
Total	<u>1,482,957</u>	<u>1,304,078</u>

(a) Option reserve

The option reserve represents amounts received in consideration for the issue of options to subscribe for ordinary shares in the Company and the value of options issued to third parties for services rendered.

	Consolidated	
	2016	2015
	\$	\$
Opening balance	1,301,356	1,249,661
Option placement at an issue price of 0.001 cents each	400	-
Fair value of options issued to directors and company secretary	161,204	-
Fair value of options issued to consultants	-	51,695
Balance at end of year	<u>1,462,960</u>	<u>1,301,356</u>

(b) Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences from the translation of the financial statements of foreign operations.

	Consolidated	
	2016	2015
	\$	\$
Opening balance	2,722	-
Currency translation differences arising during the year	17,275	2,722
Balance at end of year	<u>19,997</u>	<u>2,722</u>

16. ACCUMULATED LOSSES

	Consolidated	
	2016	2015
	\$	\$
Accumulated losses at the beginning of the year	(23,923,053)	(23,370,725)
Loss for the year	(2,901,718)	(552,328)
Accumulated losses at the end of the year	<u>(26,824,771)</u>	<u>(23,923,053)</u>

CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

17. LOSS PER SHARE

	Consolidated	
	2016	2015
	\$	\$
Net loss after income tax attributable to members of the Company	(2,901,718)	(552,328)
	Number	Number
Weighted average number of shares on issue during the financial year used in the calculation of basic earnings per share	320,896,254	196,621,952
Effect of dilution	-	-
Weighted average number of ordinary shares for diluted earnings per share	320,896,254	196,621,952

Effect of Dilutive Securities - Share Options

The Company has 246,208,836 share options at 30 June 2016 (30 June 2015: 186,708,836). Options are considered to be potential ordinary shares. However, in periods of a net loss, share options are anti-dilutive, as their exercise will not result in lower earnings per share. The options have therefore not been included in the determination of diluted earnings per share.

18. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents consists of cash at bank and in hand and short-term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

	Consolidated	
	2016	2015
	\$	\$
Cash at bank	1,399,985	1,253,481
	1,399,985	1,253,481

(b) Reconciliation of loss after tax to net cash outflows from operations

	Consolidated	
	2016	2015
	\$	\$
Loss after income tax	(2,901,718)	(552,328)
Depreciation	689	2,750
Exploration expenditure impaired	2,150,253	22,962
Net exchange differences	(15,712)	(44,368)
Option fee expensed	-	52,500
Share based payment expense	161,204	20,000
(Increase) / decrease in assets		
Trade and other receivables	5,646	(6,418)
Increase / (decrease) in liabilities		
Trade and other payables	43,667	23,500
	(555,971)	(481,402)

(c) Non-cash financing of investing activities

In April 2016 the Company issued a total of 20,000,000 incentive options to directors and the company secretary – refer note 14(c).

CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

19. ACQUISITION OF SUBSIDIARY

During the year ended 30 June 2015, the Company acquired all of the issued shares in Tojo Minerals Pty Ltd, which has rights to two highly prospective Gold (Au) –Silver (Ag) - Copper (Cu) projects (Little Butte Project and Red Hills Project) in Arizona and Nevada, USA.

This transaction was an acquisition of assets and did not meet the requirements of AASB 3 Business Combinations.

	Consolidated 2015
	\$
The purchase price was allocated as follows:	
Purchase consideration (shares issued)	472,500
	472,500
Assets and liabilities acquired at acquisition date:	
Cash	99,399
Trade and other receivables	34,157
Loan payable	(558,188)
Trade and other payables	(35,485)
Exploration and evaluation expenditure – fair value of mineral properties acquired	932,617
Total	472,500

The cash inflow on acquisition is as follows:

Net cash acquired with subsidiary	99,399
Net cash inflow	99,399

20. COMMITMENTS AND CONTINGENCIES

(a) Commitments

In order to maintain current contractual rights concerning its mineral projects, the Group has certain commitments to meet minimum expenditure requirements on the mineral exploration assets in which it has an interest. The current annual minimum lease expenditure commitments on these tenements which covers the Roe project is \$40,000. (2015: \$247,098 – Red Hills and Little Butte Project).

If the Group decides to relinquish certain leases and/or does not meet these obligations, assets recognised in the balance sheet may require review to determine the appropriateness of carrying values. The sale, transfer, or farm-out of exploration rights to third parties will reduce or extinguish these obligations.

Lease commitments

The group leases its corporate offices under non-cancellable operating leases expiring within five years.

	Consolidated	
	2016	2015
	\$	\$
Within one year	-	5,584
One year to five years	-	-
Total	-	5,584

(b) Contingent liabilities

The consolidated entity does not have any contingent liabilities at balance date.

CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

21. EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to the end of the period, the Company withdrew from the Red Hills Joint Venture.

Other than the above, no matters or circumstances have arisen since 30 June 2016 that have or may significantly affect the operations, results, or state of affairs of the consolidated entity in future financial years.

22. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Overview

The activities of the Company expose it to a variety of financial risks, including:

- market risk;
- credit risk; and
- liquidity and capital risks.

The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the business. Carnavale will use different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ageing analysis for credit risk.

This note presents information about the Company's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the Company through regular reviews of the risks.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. The Australian dollar is the reporting currency for the Group and the functional currency for the parent company; however the Group currently holds foreign currency, namely US Dollars.

At 30 June 2016, had the Australian Dollar weakened / strengthened by 10% against the US Dollar with all other variables held constant, both the post-tax loss and equity for the year would be \$6,951 higher / \$8,496 lower, mainly as a result of the change in value of the foreign cash and cash equivalents held by the Group as at balance date.

(ii) Exposure to currency risk

The Group's exposure to foreign currency risk at balance date was as follows, based on notional amounts:

	30 June 2016		30 June 2015	
	Assets	Liabilities	Assets	Liabilities
	\$	\$	\$	\$
United States Dollar	76,461	1,078	333,334	7,761

CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

22. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

(iii) Interest rate risk

The Group is exposed to movements in market interest rates on short term deposits.

The Group's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out in the following table:

	Note	Floating interest rate	Fixed interest rate	Non- interest bearing	Total	Weighted average interest rate %
		\$	\$	\$	\$	
2016						
Financial assets						
Cash and cash equivalents	18(a)	1,381,379	-	18,606	1,399,985	1.26
Trade and other receivables	8	-	-	14,493	14,493	
		<u>1,381,379</u>	<u>-</u>	<u>33,099</u>	<u>1,414,478</u>	
Financial liabilities						
Trade and other payables	13	-	-	85,512	85,512	
	Note	Floating interest rate	Fixed interest rate	Non- interest bearing	Total	Weighted average interest rate %
		\$	\$	\$	\$	
2015						
Financial assets						
Cash and cash equivalents	18(a)	918,718	-	334,763	1,253,481	2.41
Trade and other receivables	8	-	-	17,218	17,218	
		<u>918,718</u>	<u>-</u>	<u>351,981</u>	<u>1,270,699</u>	
Financial liabilities						
Trade and other payables	13	-	-	47,931	47,931	

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below, where interest is applicable. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2015.

Consolidated	Profit or (Loss)		Equity	
	100bp increase \$	100bp decrease \$	100bp increase \$	100bp decrease \$
30 June 2016				
Variable rate instruments	8,379	(8,379)	8,379	(8,379)
Cash flow sensitivity (net)	<u>8,379</u>	<u>(8,379)</u>	<u>8,379</u>	<u>(8,379)</u>
30 June 2015				
Variable rate instruments	12,386	(12,386)	12,386	(12,386)
Cash flow sensitivity (net)	<u>12,386</u>	<u>(12,386)</u>	<u>12,386</u>	<u>(12,386)</u>

CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

22. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

Financial assets

Trade receivables from other entities are carried at nominal amounts less any allowance for doubtful debts. Other receivables are carried at nominal amounts due. Interest is recorded as income on an accruals basis.

Financial liabilities

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the group.

Net fair value of financial assets and liabilities

The carrying amount of financial assets and liabilities approximates fair value because of their short-term maturity.

(iv) Commodity price risk

As Carnavale explores for a variety of minerals including gold, silver, zinc, lead and copper, it will be exposed to the risks of fluctuation in prices for those minerals. The market for all of these minerals has a history of volatility, moving not only with the standard forces of supply and demand, but also in the case of gold, to investment and disinvestment. Prices fluctuate widely in response to changing levels of supply and demand but, in the long run, prices are related to the marginal cost of supply.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash and investment deposits. The Group has adopted the policy of only dealing with credit worthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults.

The main risks the Group is exposed to through its financial instruments are the depository banking institution itself, holding the funds, and interest rates. The Group does not have significant exposure to any single counterparty or any group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the Group's maximum exposure to credit risk.

The Company and Group have established an allowance for impairment that represents their estimate of incurred losses in respect of other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures. The management does not expect any counterparty to fail to meet its obligations.

(c) Liquidity and capital risk

The Group's total capital is defined as the shareholders' net equity plus any net debt. The objectives when managing the Company's capital is to safeguard the business as a going concern, to maximise returns to shareholders and to maintain an optimal capital structure in order to reduce the cost of capital.

The Group does not have a target debt / equity ratio but has a policy of maintaining a flexible financing structure so as to be able to take advantage of investment opportunities when they arise. There are no externally imposed capital requirements.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

22. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

(c) Liquidity and capital risk (continued)

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows.

If the Company anticipates a need to raise additional capital in the next 12 months to meet forecasted operational activities, then the decision on how the Company will raise future capital will depend on market conditions existing at that time.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The table below analyses the Group's financial liabilities into maturity groupings based on the remaining period from the balance date to the contractual maturity date.

2016	Within 1 year	Between 1 and 5 years	After 5 years
Financial liabilities	\$	\$	\$
Trade and other payables	85,512	-	-
Total Financial Liabilities	85,512	-	-
2015	Within 1 year	Between 1 and 5 years	After 5 years
Financial liabilities	\$	\$	\$
Trade and other payables	47,931	-	-
Total Financial Liabilities	47,931	-	-

23. INVESTMENT IN CONTROLLED ENTITIES

(a) Particulars in relation to subsidiaries

Entity	Country of incorporation	Equity holding	Equity holding	Class of Shares
		2016 %	2015 %	
Parent Entity				
Carnavale Resources Limited				
Subsidiaries				
Carnavale Petroleum Pty Ltd	Australia	100	100	Ord
Tojo Minerals Pty Ltd	Australia	100	100	Ord
Subsidiaries of Tojo Minerals Pty Ltd				
Rattler Holdings Inc.	USA	100	100	Ord
Rattler Minerals Arizona LLC	USA	100	100	Ord
Rattler Minerals Nevada LLC	USA	100	100	Ord

CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

23. INVESTMENT IN CONTROLLED ENTITIES - continued

(b) Terms and conditions of loans to related parties

Loan advances have been made to subsidiaries noted in the table above. The loans are interest free, unsecured and repayable only when the borrower's cash flow permits. The recoverability of these loans is dependent upon the successful development and exploitation of the areas of interest currently being explored by the parent's subsidiary entities.

(c) Risk exposure

Refer to Note 22 for information on the Group's and parent entity's exposure to credit, foreign exchange and interest rate risk.

24. 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 year, Carnavale operated in the mineral exploration industry in USA and Australia and investing activities in Australia.

2016	Investing Australia \$	Mineral Exploration Australia / USA \$	Eliminations \$	Consolidated \$
Business segments				
Revenue				
Other external revenue	29,562	-	-	29,562
Total segment revenue	<u>29,562</u>	<u>-</u>	<u>-</u>	<u>29,562</u>
Results				
Operating loss before income tax	(661,251)	(2,240,467)	-	(2,901,718)
Income tax benefit				-
Net loss				<u>(2,901,718)</u>
Assets				
Segment assets	1,422,831	30,627	-	<u>1,453,458</u>
Non-current assets acquired	-	987,466	-	<u>987,466</u>
Liabilities				
Segment liabilities	82,346	3,166	-	<u>85,512</u>
Other segment information				
Depreciation	689	-	-	689
2015				
	Investing Australia \$	Mineral Exploration USA \$	Eliminations \$	Consolidated \$
Business segments				
Revenue				
Other external revenue	76,718	-	-	76,718
Total segment revenue	<u>76,718</u>	<u>-</u>	<u>-</u>	<u>76,718</u>
Results				
Operating loss before income tax	(525,436)	(26,892)	-	(552,328)
Income tax benefit				-
Net loss				<u>(552,328)</u>
Assets				
Segment assets	1,292,694	1,316,156	-	<u>2,608,850</u>
Non-current assets acquired	-	1,279,144	-	<u>1,279,144</u>
Liabilities				
Segment liabilities	36,319	11,612	-	<u>47,931</u>
Other segment information				
Depreciation	2,750	-	-	2,750

CARNAVALE RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

25. PARENT ENTITY DISCLOSURES

(a) Summary financial information

Financial Position

	2016	2015
	\$	\$
Assets		
Current assets	1,411,355	999,559
Non-current assets	30,627	1,575,867
Total assets	<u>1,441,982</u>	<u>2,575,426</u>
Liabilities		
Current liabilities	82,346	36,318
Total liabilities	<u>82,346</u>	<u>36,318</u>
Net assets	<u>1,359,636</u>	<u>2,539,108</u>
Equity		
Issued capital	26,709,760	25,179,894
Option premium reserve	1,462,960	1,301,356
Accumulated losses	(26,813,084)	(23,942,142)
Total equity	<u>1,359,636</u>	<u>2,539,108</u>

Financial performance

	2016	2015
	\$	\$
Loss for the year after income tax	(2,870,942)	(571,417)
Other comprehensive income / (loss)	-	-
Total comprehensive loss	<u>(2,870,942)</u>	<u>(571,417)</u>

(b) Guarantees entered into by the parent entity in relation to the debts of its subsidiary

Carnavale Resources Limited has not entered into any guarantees in relation to the debts of its subsidiary.

(c) Contingent liabilities of the parent

The parent entity did not have any contingent liabilities as at 30 June 2016 or 30 June 2015.

(d) Contractual commitments for the acquisition of property, plant or equipment

As at 30 June 2016 (30 June 2015 – \$Nil), the parent entity did not have any contractual commitments for the acquisition of property, plant or equipment.

**CARNAVALE RESOURCES LIMITED
DIRECTORS' DECLARATION**

In the opinion of the Directors of Carnavale Resources Limited:

- (a) The accompanying financial statements and notes are in accordance with the Corporations Act 2001 including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year then ended; and
 - (ii) complying with Accounting Standards, the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements.
- (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.
- (c) The financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2016.

Signed in accordance with a resolution of the Directors made pursuant to s 295(5) of the Corporations Act 2001.

On behalf of the Board.



ANDREW BECKWITH
Managing Director

Dated this 29th day of September 2016
Perth, Western Australia

INDEPENDENT AUDITOR'S REPORT

To the members of Carnavale Resources Limited

Report on the Financial Report

We have audited the accompanying financial report of Carnavale Resources Limited ("the company"), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

In Note 2 (c), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Carnavale Resources Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2016 and its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2 (c).

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of Carnavale Resources Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

HLB Mann Judd

**HLB Mann Judd
Chartered Accountants**

**Perth, Western Australia
29 September 2016**

A handwritten signature in black ink, appearing to read 'L Di Giallonardo'.

**L Di Giallonardo
Partner**

**CARNAVALE RESOURCES LIMITED
SHAREHOLDER INFORMATION**

The shareholder information set out below was applicable as at 27 September 2016.

1. Distribution of holders of equity securities

Size of holding	Ordinary Shares	Unlisted Options (\$0.03 @ 30-Nov-16)	Unlisted Options (\$0.02 @ 30-Dec-19)
1 - 1,000	54	-	-
1,001 - 5,000	50	10	-
5,001 - 10,000	73	16	-
10,001 - 100,000	293	50	-
100,001 and over	356	122	7
	826	198	7

2. Voting rights

There are no restrictions to voting rights attached to the ordinary shares. On a show of hands every member present in person will have one vote and upon a poll, every member present or by proxy will have one vote for each share held.

3. Substantial Shareholders

An extract of the Company's register of substantial shareholders is set out below.

<i>Shareholder</i>	Number of Shares
Vienna Holdings Pty Ltd and Redtown Enterprises Pty Ltd	43,960,000
Andrew Beckwith, Penelope Beckwith and Penand Pty Ltd	23,661,370

4. Unmarketable parcels

As at 27 September 2016 there were 321 shareholders with unmarketable parcels of shares.

5. Top 20 shareholders

The names of the twenty largest shareholders as at 27 September 2016, who hold 58.59% of the fully paid ordinary shares of the Company were as follows:

Name of holder	Number of ordinary fully paid shares held	Percentage held
1 J P Morgan Nominees Australia Ltd	49,430,608	10.77
2 Vienna Holdings Pty Ltd <Ronjen Super fund A/c>	41,960,000	9.13
3 Troca Enterprises Pty Ltd	31,076,541	6.78
4 Citicorp Nominees Pty Limited	17,367,085	3.78
5 HSBC Custody Nominees Aust Ltd	13,763,465	3.00
6 Penand Pty Ltd < Beckwith Super A/c>	13,676,448	2.98
7 Suzanne Maree Lynch	12,500,000	2.72
8 McNeil Nominees Pty Ltd	10,306,081	2.25
9 Michael Lynch	10,240,000	2.23
10 Mr Klaus Eckhof	9,500,000	2.07
11 Brennan Super (WA) Pty Ltd	9,500,000	2.07
12 Mr Phillip John Coulson	8,193,319	1.79
13 Andrew Beckwith	7,209,922	1.57
14 ESM Limited	6,000,000	1.31
15 Otis Developments Pty Ltd	5,500,000	1.20
16 Matthew Scott Anderson	5,400,000	1.18
17 MS Super Pty Ltd	5,058,753	1.10
18 SM3 Resources Pty Ltd	4,725,000	1.03
19 CW and DN Barton	4,000,000	0.87
20 Shazand Pty Ltd	3,483,400	0.76
	268,890,622	58.59

**CARNAVALE RESOURCES LIMITED
SHAREHOLDER INFORMATION**

6. Unquoted equity securities

Unquoted equity securities on issue at 27 September 2016 were as follows:

Number of Options	Exercise Price	Exercise Periods/ Expiry Dates	Number of Holders	Note
186,208,836	3 cents	On or before 30 November 2016	198	
60,000,000	2 cents	On or before 30 December 2016	7	1

Note 1: Holders of more than 20% of this class of options:

Ron Gajewski 13,000,000 options

CARNAVALE RESOURCES LIMITED
SCHEDULE OF MINERAL CONCESSION INTERESTS

Group mineral concession interests at 27 September 2016

<i>Concession name and type</i>	<i>Registered Holder</i>	<i>File Number</i>	<i>Carnavale's current equity interest</i>	<i>Maximum equity interest capable of being earned</i>
Location: Australia				
Lake Roe Exploration Project	Carnavale Resources Limited	E28/2303 and E28/2304	100%	100%
