audalia resources limited

ACN 146 035 690

INTERIM FINANCIAL REPORT

For the six months ended 31 December 2017

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DIRECTORS' REPORT

The Directors present the interim financial report of Audalia Resources Limited (the **Company or Audalia**) for the half-year ended 31 December 2017 and the auditor's review report thereon:

DIRECTORS

The Directors of the Company at any time during or since the end of the interim period and until the date of this report are noted below.

Siew Swan Ong - *Executive Director – appointed 9 October 2010*

Mr Brent Butler - *Executive Director and CEO – appointed 16 February 2011*

Mr Xu (Geoffrey) Han, - *Non-Executive Director – appointed 30 June 2016*

PRINCIPAL ACTIVITIES

During the half year, the principal continuing activities of the Company consisted of the evaluation of exploration projects.

REVIEW OF ACTIVITIES

Audalia Resources Limited (ASX: **ACP**) is pleased to present its interim financial report for the six months ended 31 December 2017 to shareholders and provide some insight into the advancement the Company has made in its activities to date.

OVERVIEW

MEDCALF PROJECT

The Medcalf Project is a vanadium-titanium-iron project located some 470 kilometres south east of Perth near Lake Johnston, Western Australia. The Medcalf Project comprises three granted Exploration Licences E63/1133, E63/1134 and E63/1855, one Miscellaneous Licence L63/75 as well as mining lease M63/656. Together these licences covering a total area of 38 km^2.

The Medcalf Project lies in the southern end of the Archaean Lake Johnston greenstone belt. This greenstone belt is a narrow, north-northwest trending belt approximately 110 km in length. It is located near the south margin of the Yilgarn Craton, midway between the southern ends of the Norseman-Wiluna and the Forrestania-Southern Cross greenstone belts.

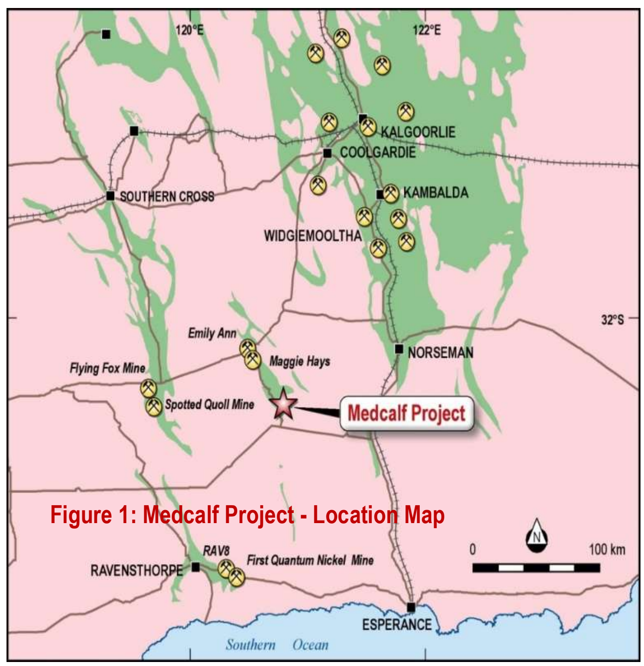

Figure 1: Medcalf Project - Location Map

Activities conducted during the half year

Interim metallurgical testwork programme.

The report from the interim metallurgical testwork programme completed during this period was received and the results released to the market on 26 October 2017.

In addition, 100 kg of run-of-mine (**ROM**) materials and 100kg of beneficiated concentrate samples were delivered to a steel mill in China for testing.

MEDCALF PROJECT (CONTINUED)

Activities conducted during the half year (continued)

Environmental approval

The Company submitted a referral on the Medcalf Project to the Department of the Environment and Energy (**DotEE**) in November 2017 for consideration under the *Environment Protection and Biodiversity Conservation Act 1999* (**EPBC Act**). The DotEE's decision was received subsequent to the end of the period and confirmed that the proposed action to clear native vegetation to develop the Medcalf Project is not a controlled action. This means the proposed action does not require further assessment and approval under the EPBC Act before it can proceed.

The Company also submitted a Section 38 Referral to WA Environmental Protection Authority (**EPA**) under the Part IV of the *Environmental Protection Act 1986*. Following the submission of Referral document to WA Environmental Protection Authority (EPA), it was published on EPA's website for public comment. The seven day public comment period has ended on 5th March 2018. The EPA will decide whether or not the proposal requires environmental impact assessment and, if so, what level of assessment will be required. The EPA's decisions will be released in the next 2-3 weeks.

Exploration programmes

The Company submitted four programme of work (**POW**) applications to the Department of Mines, Industry, Safety and Regulation (**DMIRS**). One application is for a sterilisation drilling programme over the proposed mine site area and another is for clearance of a 4m wide access track for the regional drilling programme. The final two of the applications are for additional regional exploration east of the Fuji deposit. The exploration programmes are expected to commence during the March 2018 quarter.

Additional tenure

Two tenement applications for the Medcalf Project, E63/1855 and L63/75, were granted.

Schedule of Tenements as at 31 December 2017

Projects	Licence Number	Registered Holder / Applicant	Status	Audalia's Interest
<u>Western Australia</u>				
Medcalf	E63/1133	Audalia Resources Limited	Granted	100%
	E63/1134	Audalia Resources Limited	Granted	100%
	M63/656	Audalia Resources Limited	Granted	100%
	E63/1855	Audalia Resources Limited	Granted	100%
	L63/75	Audalia Resources Limited	Granted	100%

GASCOYNE PROJECT

Exploration Licences E09/1568, E09/1569 and E09/1570 were surrendered during the period. The Final Surrender Technical Report and the Operations Reports for each tenement were compiled and submitted to DMIRS.

The Company announced on 7 August 2017 that the Gascoyne Project, comprising of tenements E09/1824, E09/1825 and E09/2102, was sold to Serena Minerals Pty Ltd (**Serena Minerals**).

In consideration for the sale the Company received 2.5 million fully paid ordinary shares in the capital of Serena Minerals Pty Ltd.

Serena Minerals is an exploration company with a present focus on gold, lead-zinc-copper and uranium exploration. Serena Minerals may also undertake an initial public offering and seek admission to the Official List of ASX in the future.

CORPORATE

The Company received an Australian Government R&D tax incentive rebate of $415,478 for the half year ended 31 December 2017.

Audalia continues to assess all funding alternatives to ensure that the Company can continue exploration and evaluation activities and advance the next stage of approvals for the Medcalf Project.

Competent Person's Statement

The information in this report relates to the Exploration Results is based on information compiled by Mr Brent Butler, who is a Fellow of The Australasian Institute of Mining and Metallurgy. Mr Butler has 34 years' experience as a geologist and is CEO and Executive Director of Audalia. Mr Butler has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (JORC Code). Mr Butler has provided his consent to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Results

The Company incurred a loss of $388,523 after income tax for the half-year (2016: loss $581,895) which includes financing costs (interest expense) of $176,962 (2016: $178,095) and for the prior period, the recognition of a taxation balance which is due to a reduction in losses as a result of receipt of the R&D tax incentive.

EVENTS SUBSEQUENT TO REPORTING DATE

On 15 February 2018, the Company announced the negotiation of early repayment and settlement of part of its existing loan facilities to settle $1.625 million of principal and the associated interest cost for $1 million payable over a 10-month period.

On 21 February 2018, the Company announced that it had negotiated a short-term loan of $500,000 from a director, Siew Swan Ong, to meet its current capital requirements (**Short-Term Loan**).

The material terms of the Short-Term Loan are as follows:

- Repayment date: one (1) month from receipt of the Short-Term Loan, which may be extended on the same terms by mutual agreement of the parties.
- Interest rate: no interest is payable on the Short-Term Loan.
- Security: The Short-Term Loan is unsecured.
- Fees: No fees are payable by Audalia for the establishment or provision of the Short-Term Loan.

On 16 March 2018, the Company announced that the loan facility of A$2 million has been renegotiated to extend the repayment date of the loan facility from 20 November 2018 to 20 November 2019.

The Company also announced that it has secured a new loan facility of $1 million to complete regional exploration and evaluation activities at the Medcalf Project.

The material terms of the new loan facility are as follows:

- Repayment Date: 31 March 2020.
- Interest rate: 10% per annum, accruing on a daily basis and payable on the Repayment Date.
- Security: The loan facility is unsecured.
- Fees: No fees are payable by Audalia for the establishment or provision of the loan facility.

In addition, the Company advises that further to the ASX announcement of 21 February 2018 in relation to the Short-Term Loan of $500,000 advanced by director Siew Swan Ong, Audalia has renegotiated an extension of the repayment date of this loan from 21 March 2018 to 31 May 2018.

The financial effect of the above transactions has not been brought to account in the interim financial report for the period.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the Directors, there were no significant changes in the state of affairs of the Company that occurred during the interim period not otherwise disclosed in this report and the interim financial report.

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, BDO Audit (WA) Pty Ltd, to provide the directors of the Company with an Independence Declaration in relation to the review of the interim financial report. This Independence Declaration is set out on page 6 and forms part of this directors' report for the half-year ended 31 December 2017.

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

Brent Butler

Executive Director and CEO

Dated at Perth, Western Australia this 16th day of March 2018.

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DECLARATION OF INDEPENDENCE BY JARRAD PRUE TO THE DIRECTORS OF AUDALIA RESOURCES LIMITED

As lead auditor for the review of Audalia Resources Limited for the half-year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

2. No contraventions of any applicable code of professional conduct in relation to the review.

Jarrad Prue

Director

BDO Audit (WA) Pty Ltd

Perth, 16 March 2018

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
(INCOME STATEMENT)
HALF YEAR ENDED 31 DECEMBER 2017

	Notes	December 2017 $	December 2016 $
Revenue from continuing operations			
Revenue	C.1	3,118	2,480
Expenses			
Financing costs (interest expense)		(176,962)	(178,095)
Loss on disposal of exploration assets		(32,071)	
Corporate and administration expenses	C.2	(182,608)	(265,354)
Profit / (loss) before income tax expense		(388,523)	(440,969)
Income tax (expense) / benefit	C.3	-	(140,926)
Net profit / (loss) for the half year		(388,523)	(581,895)
Other comprehensive income			
Items that may be realised through profit and loss		-	-
Items that may not be realised through profit and loss		-	-
Other comprehensive income for the half year net of tax		-	-
Total comprehensive income for the half year, net of tax			
Owners of Audalia Resources Limited		(388,523)	(581,895)
Loss per share attributed to the owners of the Company			
Basic loss per share – (accounting loss / number of shares)		(0.0010)	$(0.0018)
Calculation of loss per share			
Loss for the half year		(388,523)	(581,895)
Number of shares at the beginning of the period	B.2	383,457,434	240,660,001
Shares issued but adjusted (pro-rata) for the period of issue		-	73,985,088
Number of shares used to calculate the loss per share for the half year		383,457,434	314,645,089

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

audalia resources limited

STATEMENT OF FINANCIAL POSITION
(BALANCE SHEET)
AS AT 31 DECEMBER 2017

	Notes	December 2017 $	June 2017 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	B.1	916,805	1,485,702
Trade and other receivables	D.1	36,505	86,770
Other assets	D.2	19,106	11,116
Total current assets		972,416	1,583,588
NON-CURRENT ASSETS			
Plant and equipment	A.3	16,759	22,041
Exploration and evaluation expenditure	A.1	6,899,153	6,724,854
Available for sale investment	A.4	50,000	-
Total non-current assets		6,965,912	6,746,895
TOTAL ASSETS		7,938,328	8,330,483
LIABLITIES			
CURRENT LIABILITIES			
Trade and other payables	D.4	1,348,149	655,452
Employee benefits obligations	D.5	46,922	78,463
Borrowings	B.3	3,625,000	-
Total current liabilities		5,020,071	733,915
NON-CURRENT LIABILITIES			
Employee benefits obligations	D.5	7,400	6,800
Other payables	D.4	-	665,388
Borrowings	B.3	-	3,625,000
Total non-current liabilities		7,400	4,297,188
TOTAL LIABILITIES		5,027,471	5,031,103
NET ASSETS		**2,910,857**	**3,299,380**
EQUITY			
Issued capital	B.2	8,442,457	8,442,457
Reserves	B.5	10,000	10,000
Accumulated losses	B.6	(5,541,600)	(5,153,077)
TOTAL EQUITY		**2,910,857**	**3,299,380**

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS
(HOW CASH IS RECEIVED AND SPENT)
HALF YEAR ENDED 31 DECEMBER 2017

	Notes	December 2017 $	December 2016 $
Cash flows from operating activities			
Payments to suppliers and employees		(457,517)	(242,868)
Interest paid		(419)	-
interest received		3,305	2,630
Net cash outflows from operating activities		(454,631)	(240,238)
Cash flows from investing activities			
Payments for exploration expenditure		(529,745)	(537,571)
Proceeds from R&D incentives for exploration and evaluation		415,479	1,121,206
Net cash inflows/(outflows) from investing activities		(114,266)	583,635
Cash flows from financing activities			
Proceeds from issue of shares		-	1,432,971
Payment of share issue costs		-	(38,749)
Net cash inflows from financing activities		-	1,394,222
Net increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period		1,485,702	882,660
Net movement in cash flows for the period		(568,897)	1,737,619
Cash and cash equivalents at end of half year	B.1	916,805	2,620,279

Reconciliation of the loss for the half year back to cash for corporate administration costs

	December 2017 $	December 2016 $
Loss for the period	(388,523)	(581,895)
Add back – non-cash items		
Depreciation	2,015	2,231
Loss on sale of exploration assets	32,071	-
Changes in the value of assets and liabilities used in the day to day operations of the business		
Change in value (from opening to closing amounts) of trade and other receivables (received)/owed	50,264	(15,327)
Change in value (from opening to closing amounts) of other assets	(7,989)	(8,332)
Change in value (from opening to closing amounts) of trade and other payables (paid)/owing	(111,529)	220,555
Change in value (from opening to closing amounts) of employee entitlements (paid)/owing	(30,940)	1,604
Change in value (from opening to closing amounts) of deferred tax liabilities (paid)/owing	-	140,926
Net cash paid for corporate administration costs during the period	(454,631)	(240,238)

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY
HALF YEAR ENDED 31 DECEMBER 2017

	Issued capital $	Accumulated losses $	Reserve $	Total equity $
Balance at 1 July 2017	8,442,457	(5,153,077)	10,000	3,299,380
Loss for the half year	-	(388,523)	-	(388,523)
Total comprehensive income/(loss) for the half year	-	(388,523)	-	(388,523)
Transactions with Shareholders in their capacity as shareholders				
Balance at 31 Dec 2017	8,442,457	(5,541,600)	10,000	2,910,857

RESTATED

	Issued capital $	Accumulated losses $	Reserve $	Total equity $
Balance at 1 July 2016	7,048,235	(2,774,325)	10,000	4,283,910
Loss for the half year	-	(581,895)	-	(581,895)
Total comprehensive income/(loss) for the half year	-	(581,895)	-	(581,895)
Transactions with Shareholders in their capacity as shareholders				
Issue of shares (consultants and CEO)	1,432,971	-	-	1,432,971
Share based payments (CEO)	(38,749)	-	-	(38,749)
Balance at 31 Dec 2016	8,442,457	(3,356,220)	10,000	5,096,237

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

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CONDENSED NOTES TO THE INTERIM FINANCIAL REPORT
HALF YEAR ENDED 31 DECEMBER 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Audalia Resources Limited (the **Company**) is a company domiciled in Australia. Audalia Resources Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX). The interim financial report for six months ended 31 December 2017 were authorised for issue in accordance with a resolution of directors on 16 March 2018.

The nature of the operations and principal activities of the Company are described in the director's report above.

(a) Basis of preparation

The principle accounting policies adopted for the preparation of interim financial report are set out below. These accounting policies have been applied consistently to all periods presented unless otherwise stated.

(i) Statement of compliance

This interim financial report for the half-year reporting period ended 31 December 2017 has been prepared in accordance with accounting standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

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

It is recommended that this interim financial report be read in conjunction with the any public announcements made by Audalia Resources Limited up to the date of this report in accordance with the continuous disclosure requirements arising under the Corporations Act 2001 and the ASX Listing Rules.

(ii) Basis of measurement and reporting convention

This interim financial report has been prepared on the accruals basis and the historical cost basis except for financial assets and liabilities measured at fair value. All amounts are presented in Australian dollars, unless otherwise noted.

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

(iii) *Going concern*

The going concern concept relates to the assessment of the Company's ability to continue its operations (and pay its debts when they fall due) for the next 12 months from the date when the directors sign the interim financial report without the need to raise money from issuing shares or increasing the current level of its borrowings. The interim financial report has been prepared on a going concern basis.

The Company incurred a loss after tax of $388,523 and net cash outflows from operating and investing activities of $568,897 for the half year ended 31 December 2017. The Company also had a working capital deficiency of $4,047,655.

The working capital deficiency is a result of the classification of borrowings and interest payable of $3,625,000 and $841,931 respectively to a current liability as at 31 December 2017 as these amounts are all due to be repaid in November 2018. Subsequent to year end, the Company successfully renegotiated the repayment of $1.625 million loan and $0.359 million of interest for a settlement amount of $1 million resulting in a gain on extinguishing the loan of approximately $1 million as at 15 February 2018. *In addition, the director successfully renegotiated the extension of the remaining facility that existed as at 31 December 2017 to move the repayment date for principal and interest from 20 November 2018 to 20 November 2019.*

The Directors have prepared an estimated cash flow forecast for the period to May 2019 to determine if the Company may require additional funding during this period. The cash flow forecast includes a number of assumptions regarding exploration activity and funding requirements which have not yet been finalised. This results in a material uncertainty that may cast a significant doubt about the Company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business at amounts stated in the interim financial report.

The Directors have made an assessment on whether it is reasonable to assume that the Company will be able to continue its normal operations based on the following factors and judgements:

- The Company has received a short-term loan from a Director which may be extended by the mutual agreement of both parties. The directors are in the process of obtaining additional loan funding and until these amounts are received, the unsecured loan from the director will remain in place and will not be repaid.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(iii) Going concern (cont'd)

- The Company has successfully renegotiated the borrowing terms over the last 2 years to the date of this report to manage the anticipated repayment of principal and interest or alternatively extinguish debt using available cash reserves. Subsequent to the year end, the Company has successfully renegotiated the borrowing terms of its loan facilities (refer note E.1).

- *The Company has secured an additional loan facility on 16 March 2018 which is due for repayment on 31 March 2020.*

- The Company has the ability to adjust its exploration expenditure subject to results of its exploration activities.

- The Directors anticipate the support of the Company's major shareholders and lenders to continue with the advancement of the Medcalf Project.

Should the Company not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. The interim financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the entity not continue as a going concern.

(b) Segment reporting

The Company's segments have remained consistent during the reporting periods (refer to note E.4).

(c) Available for sale investments

The Company recognises and measures its financial assets at fair value plus transaction costs. Subsequent to initial recognition, available for sale investments are carried at fair value with gains taken to a reserve. Where there is objective evidence of impairment, the difference between the carrying value and the fair value is recognised in the profit and loss after all reserve values have been reduced to nil.

(d) Adoption of new or revised accounting standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the impact of new or amended standards which became applicable for the current reporting period. The Company has not early adopted any standards in this report.

(e) New accounting standards and interpretations that are not yet mandatory

The following new standards and amendments to standards are applicable to the Company and are mandatory for the first time for the financial year beginning 1 July 2017 and beyond. None of the standards and interpretations have affected any of the amounts recognised in the current period or any prior period. Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following standards, amendments to standards and interpretations have been identified as those which may impact the Company in the period of initial application. They have not been applied in preparing the interim financial report.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) New accounting standards and interpretations that are not yet mandatory

Title and Reference	Nature of Change	Application date for entity
AASB 15 Revenue from contracts with customers	An entity will recognise revenue to depict the transfer of promised good or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This means that revenue will be recognised when control of goods or services is transferred, rather than on transfer of risks and rewards as is currently the case under IAS 18 Revenue. The Company has not yet to make a full assessment of the standard, however, the Company does not expect to have a material impact of the financial statements at the current stage of development.	1 July 2018
AASB 9 Financial Instruments AASB 9	Amends the requirements for classification and measurement of financial assets. The available-for-sale and held-to-maturity categories of financial assets in AASB 139 have been eliminated. Adoption of AASB 9 is only mandatory for the year ending 30 June 2019. The entity has not yet to make a full assessment of the standard, however, the impact on the financial statement is expected to be confirmed to changes in the available for sale classification.	1 July 2018
AASB 16 (issued February 2016) Leases	AASB 16 eliminates the operating and finance lease classifications for lessees currently accounted for under AASB 117 Leases. It instead requires an entity to bring most leases onto its balance sheet in a similar way to how existing finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right of use asset in its balance sheet for most leases. There are some optional exemptions for leases with a period of 12 months or less and for low value leases. Lessor accounting remains largely unchanged from AASB 117. The entity has not yet made a detailed assessment of the impact of this standard, however, the Company does not currently have long term leases and therefore the impact of this standard for this reporting period will not be material.	1 Jan 2019

A Significant assets

A.1 Exploration and evaluation assets

	December 2017 $	June 2017 $
Exploration, evaluation and development costs carried forward in respect of areas of interest	6,899,153	6,724,854
Reconciliation – Medcalf		
Carrying amount at the beginning of the period	6,674,854	6,799,954
Additions to the exploration and evaluation asset	639,778	996,106
Less: R&D tax incentive received	(415,479)	(1,121,206)
Carrying amount at end of the period	6,899,153	6,674,854
Reconciliation – Gascoyne		
Carrying amount at the beginning of the period	50,000	1,107,832
Additions to the exploration and evaluation asset	32,071	408,982
Less: Impairment of exploration assets	-	(1,466,814)
Less: Transfer to loss on disposal of Gascoyne (refer note A.4)	(82,071)	-
Carrying amount at end of the period	-	50,000

Estimates and judgements

Assumptions used to carry forward the exploration assets

The write-off or carrying forward of exploration expenditure is based on a periodic assessment of the viability of an area of interest and/or the existence of economically recoverable reserves. This assessment is based on pre-determined impairment indicators, taking into account the requirements of the accounting standard, and with the information available at the time of preparing this interim report. Information may come to light in subsequent periods which requires the asset to be impaired or written down for which the directors are unable to predict the outcome.

A.2 Exploration Commitments

	December 2017 $	June 2017 $
Within one year	189,649	225,200
After one year but not more than five years	800,800	780,800
Over five years	2,592,800	2,663,836
	3,583,249	3,669,836

The Company has certain obligations to perform minimum exploration work on tenements held. These obligations may vary over time, depending on the Company's exploration programme and priorities. These obligations are also subject to variations by application or can reduce by entering into joint venture arrangements or alternatively by relinquishing the tenements. As at the reporting date, total exploration expenditure commitments of the Company which have not been provided for in the interim financial report is listed above. The table has been presented assuming the Company's full minimum expenditure commitments are payable over the specified period but adjusted for costs incurred to date in the within one year category.

CONDENSED NOTES TO THE INTERIM FINANCIAL REPORT
HALF YEAR ENDED 31 DECEMBER 2017

A Significant assets

	December 2017 $	June 2017 $
A.3 Operating assets – Plant and Equipment		
Operating assets – Plant and Equipment	23,810	23,810
Accumulated depreciation	(21,597)	(18,580)
	2,213	5,230
Site equipment	5,000	5,000
Accumulated depreciation	(1,250)	(1,000)
	3,750	4,000
Total operating assets	5,963	9,230
Total administration assets (refer note D.3)	10,796	12,811
Total plant and equipment balance	16,759	22,041

A reconciliation of the carrying amounts of each class of operating plant and equipment at the beginning and at the end of the current period is set out below:

	Site Equipment $	Office Equipment $	Total $
Opening net book value at 1 July 2017	5,230	4,000	9,230
Depreciation expense	(3,017)	(250)	(3,267)
Closing net book value at 31 Dec 2017	2,213	3,750	5,963

A.4 Investment

	December 2017 $	June 2017 $
Available for sale investment (i)	50,000	-
	50,000	-

(i) Movements in available for sale investments

<u>Reconciliation of movements in the balance</u>

Opening balance	-	
Amounts received on sale of Gascoyne [1]	50,000	-
Movement in fair value [2]	-	-
Closing balance at end of period	50,000	-

1. The Company disposed of its interest in the Gascoyne project to Serena Minerals Pty Ltd in consideration for 2,500,000 shares in Serena Minerals Pty Ltd.
2. The fair value of the investment has been valued using a level 1 input (fair market price for shares). Serena recently raised capital to non-related parties and the carrying value of the investment has been marked to this market price per share.

B Financing – Capital, debt and risk management

B.1 Cash

	December 2017 $	June 2017 $
Cash at bank and in hand	900,630	1,469,906
Term deposit	16,175	15,796
Cash as per cash flow statement	916,805	1,485,702

Credit risk (1)

	December 2017 $	June 2017 $
A-1+	916,605	1,485,502

1. The equivalent S&P rating of the financial assets represents that rating of the counterparty with whom the financial asset is held rather than the rating of the financial asset itself.

Interest rate risk – (risk that interest rates change unfavourably for the Company)

The Company is currently not exposed to material interest rate movements given the low interest rate returns on offer in the market for funds on deposit and the Company's fixed rate borrowings (refer B.3).

B.2 Equity (number of shares on issue and the amount paid (or value attributed) for the shares)

(a) Ordinary shares

	December 2017 Number	June 2017 Number	December 2017 $	June 2017 $
Balance at the beginning of the year	383,957,434	240,660,001	8,442,457	7,048,235
Entitlement issue at $0.01 (28/09/16)	-	143,297,433	-	1,432,971
Share issue costs	-	-	-	(38,749)
Balance as at end of the year	383,957,434	383,957,434	8,442,457	8,442,457

Ordinary shares entitle the holder to participate in dividends and the proceeds from winding up of the Company in proportion to the number and amounts paid on the shares held.

On a show of hands every holder of ordinary securities present at a shareholder meeting in person or by proxy is, entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

B.3 Borrowings (loans)

	December 2017 $	June 2017 $
Current	3,625,000	-
Borrowings – (payable within one year)	3,625,000	-
Non-current	-	3,625,000
Borrowings – (payable after one year)	-	3,625,000

B Financing – Capital, debt and risk management

B.3 Borrowings (loans)

	December 2017 $	June 2017 $
Reconciliation of movements in the balance		
Opening balance	3,625,000	3,625,000
Amounts drawn down	-	-
Amounts repaid	-	-
Closing balance at end of period	3,625,000	3,625,000

Terms of the borrowings

The key terms of the loans are listed below:

1. The interest rate is 8% compounded daily and payable at the end of the term of the loans;
2. $2 million of loans are due to be repaid on 18 November 2018 (together with the interest), the remaining balance has been renegotiated (refer E.1 for further details);
3. The loans are unsecured and are not subject to any covenants; and
4. The loans are with private investors.

Repayment profile (in years) – (Liquidity)

	Carrying Amount $	Contractual Cash flows $	Less than 1 year $	Between 2 and 5 yrs $
31 December 2017				
Interest 2	841,931	665,445	665,445	-
Borrowings 2	3,625,000	3,000,000	3,000,000	-
	4,466,931	3,665,445	3,665,445	
30 June 2017				
Interest 1	665,388	1,274,232	-	1,274,232
Borrowings 1	3,625,000	3,625,000	-	3,625,000
	4,290,388	4,899,232	-	4,899,232

1. The loan repayment date, originally due on 20 November 2016, was extended to 20 November 2018 on 8 August 2016 as agreed with the Company's lenders.

2. On 15 February 2018, the Company announced the renegotiation of a portion of the loan facility with the early repayment of $1million in satisfaction of $1.625 million in principal and associated interest for the loan (refer note E.1).

B.4 Risk management

General

Audalia's risk management framework is supported by the Board, management and the Audit and Risk Committee. The Board is responsible for approving and reviewing the Company's risk management strategy and policy. Management are responsible for monitoring that appropriate processes and controls are in place to effectively and efficiently manage risk. The Audit and Risk Committee is responsible for identifying, monitoring and managing significant business risks faced by the Company and considering the effectiveness of its internal control system. Management and the Audit and Risk Committee report to the Board.

B Financing – Capital, debt and risk management

B.4 Risk management (cont'd)

Capital (company's ability to raise equity (issue shares) or obtain loans (borrowings) as and when needed)

The capital of the Company consists of issued capital (shares) and borrowings. The Directors aim to maintain a capital structure that ensures the lowest cost of capital available to the entity at the time when funds are obtained. The Directors will assess the options available to the Company to issue more shares while taking into account the effect on current shareholder ownership percentages (dilution) or alternatively assess the ability of the Company to access debt (borrowings) where the cost associated of borrowing these funds (interest) is not considered excessive.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position although there is no formal policy regarding gearing levels as the Company is not yet in production.

Liquidity (the ability of the company to pay its liabilities as and when the fall due)

Liquidity risk arises from the debts (financial liabilities being creditors and other payables) of the Company and the Company's subsequent ability to meet these obligations to repay its debts (financial liabilities) as and when they fall due.

Ultimate responsibility for liquidity risk management rests with the Board of Directors. The Board has determined an appropriate liquidity risk management framework for the administration of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate cash reserves and monitoring actual cash flows and matching the maturity profiles of financial assets, expenditure commitments and debts (liabilities). There were no changes in the Company's liquidity risk management policies from previous years.

The major current asset of the Company is its cash at bank. The assessment of the credit risk based on a rating agency review of the financial institution has been included in B.1 above.

B.5 Reserves

	December 2017 $	June 2017 $
Options premium reserve	10,000	10,000
Share based payments reserves	-	-
	10,000	10,000

Option premium reserve

The option premium reserve was used to record the value of options issued in satisfaction of fees payable to a consultant.

Share based payments reserves

The share based payments reserve is used to recognise the value of shares issued to settle contractual obligations (equity-settled share based payments) provided to employees or consultants as part of their contracts.

The value attributable to the shares issued to employees and consultants is determined based on valuation technique applicable to the type of contractual relationship the Company has with the recipient. In the case of shares issued, the value attributable is the market price at a pre-determined date being the "grant date" as defined in the accounting standard.

CONDENSED NOTES TO THE INTERIM FINANCIAL REPORT
HALF YEAR ENDED 31 DECEMBER 2017

B Financing – Capital, debt and risk management

B.6 Accumulated losses

	December 2017 $	June 2017 $
Accumulated losses at the beginning of the year	5,153,077	2,774,326
Net loss for the period	388,523	2,378,752
Accumulated losses at the end of the period	5,541,600	5,153,077

B.7 Leases

	December 2017 $	June 2017 $
Within one year	9,666	9,666
After one year but not more than five years	-	-
	9,666	9,666

C Profit and loss items

C.1 Revenue

	December 2017 $	December 2016 $
Interest income	3,118	2,480
	3,118	2,480

C.2 Expenses

	December 2017 $	December 2016 $
Personnel expenses		
- Director fees and employee expenses	61,500	69,460
- Superannuation and leave entitlements expense	5,843	8,203
	67,343	77,663
Depreciation expense	2,015	2,231
Administration expenses		
- Accounting, annual report, tax and secretarial fees	58,352	63,179
- Audit expenses	10,945	10,842
- Consultancy fees	12,240	14,250
- Insurance expenses	9,373	8,768
- Legal expenses	(6,060)	36,512
- Regulatory fees	3,400	4,333
- Operating lease expenses	32,500	32,500
- Other expenses	(7,500)	15,076
Total administration expenses	113,250	185,460
Total expenses	182,608	265,354

C.3 Taxation

Income tax expense - Numerical reconciliation between tax expense and pre-tax net loss

	December 2017 $	December 2016 $
Loss before income tax expense	(388,523)	(440,969)
Income tax benefit calculated at 28.5% (2016:30.0%)	(106,844)	(125,676)
Effect of non-deductible item – entertainment/other	-	-
Increase in deferred tax liability balance not previously recognised	-	2,115,226
Increase in deferred tax asset balances not previously recognised	-	(1,848,624)
Increase in deferred tax balance not brought to account	106,844	-
Income tax expense	-	140,926

CONDENSED NOTES TO THE INTERIM FINANCIAL REPORT
HALF YEAR ENDED 31 DECEMBER 2017

C Profit and loss items

C.3 Taxation (cont'd)

	December 2017 $	December 2016 $
Deferred tax liability on Exploration assets, prepayments & interest	1,900,336	2,115,226
less: Deferred tax asset on carry forward losses / timing difference	(1,900,336)	(1,974,300)
Net deferred tax liability for the period	-	140,926

The total deferred tax assets not recognised was for the period to 31 December 2017 was $2,162,738.

The tax benefits of the above deferred tax assets will only be obtained if:

(i) the Company derives future assessable income of a nature and of an amount sufficient to enable the benefits to be utilised;
(ii) the Company continues to comply with the conditions for deductibility imposed by law; and
(iii) no changes in income tax legislation adversely affects the Company in utilising the benefits.

D Other assets and liabilities

D.1 Trade and other receivables

	December 2017	June 2017
GST receivable	6,510	56,588
Interest receivable	45	232
Security deposit	29,950	29,950
	36,505	86,770

Estimates and judgement

Recoverability of the assets

The Directors have assessed the likelihood that the assets will be received in cash after the reporting date (assessment of the recovery of the assets and impairment (write-off)) and have determined that the assets are expected to be recovered after the period end.

Due to the short-term nature of the current receivables, their carrying amounts approximate their fair value.

Credit risk (excludes GST)

	December 2017	June 2017
A-1+ [1]	29,995	30,182
No credit rating available (received after year end)	-	-
	29,995	30,182

1. The equivalent S&P rating of the financial assets represents that rating of the counterparty with whom the financial asset is held rather than the rating of the financial asset itself.

D.2 Other assets

	December 2017	June 2017
Prepaid rent	5,417	5,417
Prepaid insurance	13,689	5,699
	19,106	11,116

D Other assets and liabilities

D.3 Plant and Equipment (administration)

	December 2017 $	June 2017 $
Office Equipment	16,592	16,592
Accumulated depreciation	(10,453)	(8,816)
	6,139	7,776
Furniture and fittings	7,555	7,555
Accumulated depreciation	(2,898)	(2,520)
	4,657	5,035
Leaseholder improvements	635	635
Accumulated depreciation	(635)	(635)
	-	-
Total administration assets	10,796	12,811

A reconciliation of the carrying amounts of each class of operating plant and equipment at the beginning and at the end of the current period is set out below:

	Office Equipment $	Furniture & Fittings $	Leasehold Improvements $	Total $
Opening net book value at 1 Jul 2017	7,776	5,035	-	12,811
Additions during the half year	-	-	-	-
Disposals during the half year	-	-	-	-
Depreciation expense	(1,637)	(378)	-	(2,015)
Closing net book value at 31 Dec 2017	6,139	4,657	-	10,796

D.4 Trade and other payables (debts)

	December 2017 $	June 2017 $
Current liabilities (debts payable within 12 months)		
Trade creditors	40,703	101,064
Other creditors and accrual 1	1,307,446	554,388
	1,348,149	655,452
Non-current liabilities (debts payable after 12 months)		
Other creditors and accruals 1	-	665,388
	-	665,388

1. Refer to note B.3 for details of the repayment period for the liabilities. The 31 December 2017 balance includes $841,931 of accrued interest.

Due to the short-term nature of current payables, the carrying amount of trade and other payables approximates their fair value.

D Other assets and liabilities

D.5 Employee benefits obligations

	December 2017 $	June 2017 $
Annual leave – current	46,922	78,463
Annual leave – current (due for payment within 12 months)		
Reconciliation		
Balance brought forward	78,463	70,774
Movement during the period/year	(31,541)	7,689
Transfer from non-current liabilities	-	-
Balance carried forward	46,922	78,463
Long service leave – non-current	7,400	6,800
Long service leave – non-current liabilities (debts payable after 12 months)		
Reconciliation		
Balance brought forward	6,800	9,330
Movement during the period/year	600	(2,530)
Transfer from non-current liabilities	-	-
Balance carried forward	7,400	6,800

E Additional disclosures

E.1 Subsequent events

On 15 February 2018, the Company announced the negotiation of early repayment and settlement of part of its existing loan facilities to settle $1.625 million of principal and the associated interest cost for $1 million payable over a 10-month period.

On 21 February 2018, the Company announced that it had negotiated a short-term loan of $500,000 from a director, Siew Swan Ong, to meet its current capital requirements (**Short-Term Loan**).

The material terms of the Short-Term Loan as follows:

- Repayment date: one (1) month from receipt of the Short-Term Loan, which may be extended on the same terms by mutual agreement of the parties.
- Interest rate: no interest is payable on the Short-Term Loan.
- Security: The Short-Term Loan is unsecured.
- Fees: No fees are payable by Audalia for the establishment or provision of the Short-Term Loan."

The financial effect of the above transactions has not been brought to account in the interim financial report for the period.

E Additional disclosures

E.1 Subsequent events (cont'd)

On 16 March 2018, the Company announced that the loan facility of A$2 million has been renegotiated to extend the repayment date of the loan facility from 20 November 2018 to 20 November 2019.

The Company also announced that it has secured a new loan facility of $1 million to complete regional exploration and evaluation activities at the Medcalf Project.

The material terms of the new loan facility are as follows:

- Repayment Date: 31 March 2020.
- Interest rate: 10% per annum, accruing on a daily basis and payable on the Repayment Date.
- Security: The loan facility is unsecured.
- Fees: No fees are payable by Audalia for the establishment or provision of the loan facility.

In addition, the Company advises that further to the ASX announcement of 21 February 2018 in relation to the Short-Term Loan of $500,000 advanced by director Siew Swan Ong, Audalia has renegotiated an extension of the repayment date of this loan from 21 March 2018 to 31 May 2018.

E.2 Contingent liabilities

The directors are not aware of any contingent liabilities as at reporting date.

E.4 Segment reporting

	Mineral Exploration $	Corporate Admin $	Company $
Half Year ended 31 December 2017			
Segment Revenue	-	3,118	3,118
Significant expenses within the loss			
Interest expenses	-	(176,962)	(176,962)
Depreciation and amortisation	-	(2,015)	(2,015)
Loss on sale of assets	(32,071)	-	(32,071)
Segment net operating profit/(loss) after tax	(32,071)	(356,452)	(388,523)
Half Year ended 31 December 2016			
Segment Revenue	-	2,480	2,480
Significant expenses within the loss			
Interest expenses	-	(178,095)	(178,095)
Depreciation and amortisation	-	(2,231)	(2,231)
Income tax expense	-	(140,926)	(140,926)
Segment net operating profit/(loss) after tax	-	(581,894)	(581,894)
Segment assets			
At 31 December 2017	6,899,153	1,039,175	7,938,328
At 30 June 2017	6,734,084	1,596,399	8,330,483
Segment liabilities			
At 31 December 2017	(224,983)	(4,802,488)	(5,027,471)
At 30 June 2017	(92,525)	(4,938,578)	(5,031,103)

The Company does not have additional assets, liabilities, revenue or expenses outside the segments reported above.

E Additional disclosures

E.5 Related party transactions

Transactions with key management personnel (those individuals that direct the company)

The Company's key management personnel for the period 1 July 2017 to 31 December 2017 were:
Mr Brent Butler
Siew Swan Ong
Mr Geoffrey Han

The Company may enter into agreements for services rendered with these individuals (or an entity that is associated with the individuals).

Two entities associated with the directors have a consulting agreement in place which has resulted in transactions between the company and those entities during the period. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

The aggregate amounts recognised during the period relating to key management personnel and their related parties has been set out in the table below:

E.5 Related party transactions (cont'd)

		Transaction Value		Outstanding balance	
		December 2017	December 2016	December 2017	December 2016
Director / executive	**Transaction**	**$**	**$**	**$**	**$**
Mr B Butler 1	Consulting Services	60,000	60,000	-	-
Mr X Han 2	Consulting Services	92,150	112,533	-	-

Notes in relation to the table of related party transactions.

1. A company associated with Mr Butler, World Technical Services Group Pty Ltd, provides geological consulting services in connection with the operations of the Company. Terms for such services are based on market rates, and amounts are payable on a monthly basis.

2. Mr Han was appointed as a director on 30 June 2016. A company associated with Mr Han, HQ Tech Pty Ltd, provides engineering consulting services in connection with the operations of the Company. The fees disclosed are for the period since Mr Han commenced as a director of the company. Terms for such services are based on market rates, and amounts are payable on a monthly basis.

There are no other related party transactions (other than directors' fees and director's salaries) to be disclosed in the interim financial report. The total amount owed to the directors for salaries as at 31 December 2017 which remain unpaid are $220,000 (which forms part of the other creditors and accrued balance in note D.4) (2016: $372,146).

Directors' Declaration

In the opinion of the directors of Audalia Resources Limited:

(a) the financial statements and notes set out on pages 7 to 25 are in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and

   (ii) complying with Accounting Standards AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(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.

The directors have been given the declarations by the Chief Executive Officer and Executive Director required by section 295A of the Corporations Act 2001.

This declaration is signed in accordance with a resolution of the Board of Directors made pursuant to section 303(5) of the Corporations Act 2001.

Brent Butler

Executive Director and CEO

Dated at Perth, Western Australia this 16th day of March 2018.

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Audalia Resources Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Audalia Resources Limited (the Company), which comprises the statement of financial position as at 31 December 2017, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year then ended, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration.

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

(i) Giving a true and fair view of the company's financial position as at 31 December 2017 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of matter – Material uncertainty relating to going concern

We draw attention to Note 1 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and therefore the Company may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

Directors' responsibility for the Half-Year Financial Report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2017 and its performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

As the auditor of the Company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit (WA) Pty Ltd

BDO
JPrue

Jarrad Prue

Director

Perth, 16 March 2018