



ACN 146 035 690

2011 ANNUAL REPORT

For the period from incorporation on 27 August 2010 to 30 June 2011

CORPORATE DIRECTORY

DIRECTORS

Executive Chairman
Executive Director
Non-Executive Director

Dato Soo Kok Lim
Mr Siew Swan Ong
Mr Brent Butler

COMPANY SECRETARY

Ms Karen Logan

PRINCIPAL PLACE OF BUSINESS

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NEDLANDS WA 6009
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Facsimile: (61 8) 9386 3900
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Website: www.audalia.com.au

REGISTERED OFFICE

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SHARE REGISTRY

Computershare Investor Services Pty Ltd
Level 2, 45 St George's Terrace
PERTH WA 6000
Telephone: (61 8) 9323 2000
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SOLICITORS

Steinepreis Paganin
Level 4, The Read Buildings
16 Milligan Street
PERTH WA 6000

AUDITOR

BDO Audit (WA) Pty Ltd
38 Station Street
SUBIACO WA 6008

BANKER

National Australia Bank
48 Howe Street
OSBORNE PARK WA 6017

STOCK EXCHANGE

ASX Limited
Exchange Plaza
2 The Esplanade
Perth WA 6000

ASX Code: ACP, ACPO

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DIRECTORS' REPORT

The Directors present their report together with the financial report of Audalia Resources Limited (the **Company**) for the period from incorporation on 27 August 2010 to 30 June 2011 (the **Period**) and the auditor's report thereon.

DIRECTORS

The Directors of the Company at any time during or since the end of the Period are:

Dato Soo Kok Lim

Executive Chairman – Appointed: 9 October 2010

Dato Lim is a graduate in Law with Honours from The University of Kent at Canterbury, England in 1989. In 1990, he obtained the degree of Utter Barrister Gray's Inn, England. He was called to the Bar in Malaysia in 1991. After a brief career in a local law firm in Kuala Lumpur, he established his own practice in 1993 and operated it until 1999. He was appointed a Commissioner for Oaths by the Chief Justice of Malaysia in 1999. Dato Lim is also a Notary Public appointed by the Attorney General of Malaysia.

He is also currently a director of a number of companies listed on Bursa Malaysia (formerly known as the Kuala Lumpur Stock Exchange). Dato Lim is actively involved with the management of significant family investments in property development, hotel management and other commercial interests. He has substantial business and legal experience in investments in Malaysia, Australia, China and other South East Asian countries.

Dato Lim will be seeking re-election by shareholders at the 2011 Annual General Meeting.

Mr Siew Swan Ong

Executive Director – Appointed: 9 October 2010

Mr Ong is an advocate & solicitor with over more than 15 years of experience including managing his legal practice in Malaysia. He is a graduate in law from Bond University, Australia. He provides legal advice to a wide range of clients including clients in the mining industry in Malaysia and Indonesia.

He has extensive knowledge of the mining industry in Malaysia having involved as legal counsel in joint ventures and acquisition of mining transactions and dispute resolution between clients and State Governments.

He has served as a director and company secretary on several companies in Malaysia and Hong Kong.

Mr Ong will be seeking re-election by shareholders at the 2011 Annual General Meeting.

Mr Brent Butler

Non-Executive Director – Appointed: 16 February 2011

Mr Butler is a geologist with over 25 years' experience in the resource industry. He has a geology degree from Otago University and is a member of the Australasian Institute of Mining and Metallurgy. Mr Butler is also a Fellow of the Society of Geology (USA) and a member of Prospectors Development of Canada. He is currently the President and CEO of Superior Mining International Corporation, Director of Redhill Resources Corp and Managing Director of its Australian subsidiary. He has significant international exploration and mining experience in the gold industry, having worked in the United States, Brazil, Chile, Argentina, Africa and Australia.

Mr Butler will be seeking re-election by shareholders at the 2011 Annual General Meeting.

Mr Anthony Ho

Non-Executive Director – Appointed: 27 August 2010, resigned 17 August 2011

Mr Giap Ch'ng Ooi

Executive Director - appointed 27 August 2010, resigned 5 April 2011

DIRECTORS' REPORT

COMPANY SECRETARY

Ms Karen Logan

Appointed: 27 August 2010

Ms Logan graduated with a Bachelor of Commerce majoring in Accounting and Business Law from Curtin University in Western Australia. After completing a Graduate Diploma in Applied Corporate Governance, she qualified as a Chartered Secretary in 2009. Ms Logan is an Associate of the Institute of Chartered Secretaries and Administrators and a Fellow of the Financial Services Institute of Australasia.

She has been a partner of a public practice since 2006 and has significant experience in capital raising projects and ASX listings. She is currently the secretary of a number of ASX-listed companies and provides corporate and accounting advice and services to those clients.

DIRECTORSHIPS IN OTHER LISTED ENTITIES

Directorships of other listed entities held by directors of the Company during the last 3 years immediately before the end of the Period are as follows:

Director	Company	Period of directorship	
		From	To
Dato Soo Kok Lim	Not Applicable	-	-
Mr Siew Swan Ong	Not Applicable	-	-
Mr Brent Butler	Redhill Resources Corp.	2006	Present
	Siburan Resources Limited	12 November 2009	Present
	Superior Mining International Corporation	22 March 2011	Present

DIRECTORS' INTERESTS

The relevant interests of each director in the securities of the Company at the date of this report are as follows:

Director	Shares	Options
Dato Soo Kok Lim	15,750,000	-
Mr Siew Swan Ong	15,750,000	-
Mr Brent Butler	530,000	15,000

DIRECTORS' MEETINGS

The number of directors' meetings and the number of meetings attended by each of the directors of the Company during the Period are:

Director	Board Meetings		Audit and Risk Committee Meetings		Nomination and Remuneration Committee Meetings	
	Held	Attended	Held	Attended	Held	Attended
Dato Soo Kok Lim	6	6	-	-	N/A	N/A
Mr Siew Swan Ong	6	6	N/A	N/A	N/A	N/A
Mr Brent Butler	3	3	-	-	-	-
Mr Anthony Ho	6	6	-	-	-	-
Mr Giap Ch'ng Ooi	3	3	N/A	N/A	N/A	N/A

Committee membership

As at the date of the report, the Company had a Nomination and Remuneration Committee and an Audit and Risk Committee of the Board of Directors:

DIRECTORS' REPORT

DIRECTORS' MEETINGS (continued)

Committee membership (continued)

Members acting on the committees of the Board during the Period were:

Nomination and Remuneration Committee	Audit and Risk Committee
Mr Brent Butler (Chairman) Mr Anthony Ho*	Mr Brent Butler (Chairman) Mr Anthony Ho*

* Resigned 17 August 2011

Following Mr Ho's resignation, Mr Ong was appointed a member of the Nomination and Remuneration Committee and Dato Lim was appointed a member of the Audit and Risk Committee.

PRINCIPAL ACTIVITY

The principal activity of the Company during the Period was the raising of capital and listing on ASX to fund its mineral exploration plans.

OPERATING AND FINANCIAL REVIEW

Operating review

The Company was successfully admitted to the Official List of ASX subsequent to reporting date. This listing was preceded by capital raisings aggregating \$2,837,500.

During the Period, the Company acquired three mining tenements in the Gascoyne region of Western Australia. The Company also made applications for two additional exploration licences in the area adjacent to the three mining tenements.

Financial review

The Company incurred a loss of \$97,706 after income tax for the Period.

During the Period, the Company also completed a capital raising programme aggregating \$2,837,500.

Significant Changes in the State of Affairs

The Company was incorporated on 27 August 2010 and was admitted to the Official List of ASX Limited (**ASX**) on 4 July 2011 and official quotation of its securities on ASX commenced on 6 July 2011.

The Company's net assets increased to \$2,530,882 during the Period. The increase in net assets principally comprised:

- (a) an increase in exploration and evaluation expenditure (including acquisition costs) of \$251,511 as a result of the acquisition of three mining tenements in Gascoyne region of Western Australia; and
- (b) an increase in cash assets of \$2,361,588 principally from capital raisings completed during the Period.

Fully paid ordinary shares issued during the Period are as follows:

- (a) the issue of 1 share at \$0.20 on incorporation;
- (b) the issue of 55,000,000 shares at \$0.0001 each to raise \$5,500;
- (c) the issue of 7,500,000 shares at \$0.04 each to raise \$300,000;
- (d) the issue of 10,000,000 shares at \$0.10 each to raise \$1,000,000; and
- (e) the issue of 7,660,000 shares at \$0.20 each to raise \$1,532,000;

Total shares on issue at 30 June 2011 are 80,160,001.

RESULTS

The Company incurred a loss of \$97,706 after income tax for the Period.

DIRECTORS' REPORT

LIKELY DEVELOPMENTS

The Company will continue to pursue its principal activity of mineral exploration and continue to review and assess other acquisition and joint venture opportunities in the resource sector.

DIVIDENDS

No dividend has been declared or paid by the Company to the date of this report.

ENVIRONMENTAL REGULATION

The Company's exploration and mining activities are governed by a range of environmental legislation and regulations. As the Company is still in the development phase of its interests in exploration projects, Audalia Resources is not yet subject to the public reporting requirements of environmental legislation and regulations. To the best of the directors' knowledge, the Company has adequate systems in place to ensure compliance with the requirements of the applicable environmental legislation and is not aware of any breach of those requirements during the Period and up to the date of the Director's Report.

EVENTS SUBSEQUENT TO REPORTING DATE

Other than the matters described in Note 19 to these financial statements, there has not arisen in the interval between the end of the Period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

OPTIONS

Options granted

During or since the end of the Period, the Company granted the following options over unissued ordinary shares:

Class	Expiry date	Exercise Price	Date Granted	Number of Options
Listed Options (ACPO)	28 April 2014	\$0.20	29 June 2011	6,830,004

None of these options were exercised during the Period and all remained outstanding at 30 June 2011. These options do not entitle the holder to participate in any share issue of the Company or any other entity.

INDEMNIFICATION AND INSURANCE OF OFFICERS

Indemnification

The Company has agreed to indemnify the current directors and company secretary of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the Company, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

Insurance

As at the date of this report no insurance policies in respect of indemnification of officers have been entered into.

DIRECTORS' REPORT

INDEMNIFICATION AND INSURANCE OF AUDITORS

The Company has not, during or since the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purposes of taking responsibility on behalf of the Company for all or part of those proceedings.

NON-AUDIT SERVICES

The following non-audit services were provided by BDO Corporate Finance (WA) Pty Ltd, a company associated with the Company's auditor, BDO Audit (WA) Pty Ltd. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

BDO Corporate Finance (WA) Pty Ltd received or are due to receive the following amounts for the provision of non-audit services:

	2011 \$
Investigating accountant's report for inclusion in a prospectus	6,939

OFFICERS OF THE COMPANY WHO ARE FORMER AUDIT PARTNERS OF BDO AUDIT (WA) PTY LTD

There are no officers of the Company who are former audit partners of BDO Audit (WA) Pty Ltd.

REMUNERATION REPORT

The Remuneration Report is set out on pages 8 to 11 and forms part of the Directors' Report.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is set out on page 41 and forms part of the Director's Report.

AUDITOR

BDO Audit (WA) Pty Ltd continues in office in accordance with section 327 of the *Corporations Act 2001*.

Dated at Perth, Western Australia this 29th day of September 2011.

Signed in accordance with a resolution of the directors:



Dato Soo Kok Lim
Executive Chairman

REMUNERATION REPORT (AUDITED)

This Remuneration Report outlines the remuneration arrangements of the Company in accordance with the requirements of the *Corporations Act 2001* (the **Act**) and its regulations. This information has been audited as required by section 308(3C) of the Act.

For the purposes of this report, key management personnel of the Company are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company.

KEY MANAGEMENT PERSONNEL

The following were key management personnel of the Company at any time during the Period and unless otherwise indicated were key management personnel for the entire Period:

Directors

Name	Position held
Dato Soo Kok Lim	Executive Chairman (appointed 9 October 2010)
Mr Siew Swan Ong	Executive Director (appointed 9 October 2010)
Mr Brent Butler	Non-Executive Director (appointed 16 February 2011)
Mr Anthony Ho	Non-Executive Director (appointed 27 August 2010; resigned 17 August 2011)
Mr Giap Ch'ng Ooi	Managing Director (appointed 27 August 2010; resigned 5 April 2011)

Executives

Name	Position held
Ms Karen Logan	Company Secretary (appointed 27 August 2010)

REMUNERATION COMMITTEE

The Nomination and Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing remuneration policies for the directors and executives. If necessary, the Nomination and Remuneration Committee obtains independent advice on the appropriateness of remuneration packages given trends in comparable companies and in accordance with the objectives of the Company.

Further information on the Nomination and Remuneration Committee's role, responsibilities and membership is set out in the section entitled Corporate Governance Statement in this Financial Report.

PRINCIPLES OF REMUNERATION

The remuneration structures explained below are competitively set to attract, motivate and retain suitably qualified and experienced candidates, reward the achievement of strategic objectives and achieve the broader outcome of creation of value for shareholders. The remuneration structures take into account:

- the capability and experience of the key management personnel;
- the key management personnel's ability to control the achievement of strategic objectives;
- the Company's performance including:
 - the growth in share price; and
 - the amount of incentives within each key management person's compensation.

Given the evaluation and developmental nature of the Company's principal activity, the overall level of compensation does not have regard to the earnings of the Company.

REMUNERATION STRUCTURE

In accordance with best practice corporate governance, the structure of non-executive directors' remuneration is clearly distinguished from that of executives.

REMUNERATION REPORT

REMUNERATION STRUCTURE (continued)

Non-executive director remuneration

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. Total remuneration for all non-executive directors, last voted upon by shareholders at the 2011 General Meeting, is not to exceed \$300,000 per annum. Directors' fees cover all main board activities and membership of committees.

Non-executive directors do not receive any retirement benefits, other than statutory superannuation, nor do they receive any performance related compensation.

Executive remuneration

Remuneration for executives is set out in employment agreements. Details of the employment agreements with the Executive Chairman and Executive Director are provided below.

Executive directors may receive performance related compensation but do not receive any retirement benefits, other than statutory superannuation.

Fixed remuneration

Fixed remuneration consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles) as well as employer contributions to superannuation funds.

Fixed remuneration is reviewed annually by the Nomination and Remuneration Committee through a process that considers individual and overall performance of the Company. As noted above, the Nomination and Remuneration Committee has access to external advice independent of management.

Long-term incentive

Long-term incentives (LTI) may be provided to key management personnel in the form of options over ordinary shares of the Company. LTI are considered to promote continuity of employment and provide additional incentive to recipients to increase shareholder wealth. Options may only be issued to directors subject to approval by shareholders in general meeting.

There were no options issued as LTI during the Period.

The Company has introduced a policy that prohibits employees and directors of the Company from entering into transactions that operate or are intended to operate to limit the economic risk or are designed or intended to hedge exposure to unvested Company securities. This includes entering into arrangements to hedge their exposure to LTI granted as part of their remuneration package. This policy may be enforced by requesting employees and directors to confirm compliance.

Consequences of performance on shareholder wealth

In considering the Company's performance and benefits for shareholder wealth, the directors have regard to the following indices in respect of the current financial period:

	2011 ¹
Net loss for the Period	\$97,706
Dividends paid	Nil
Change in share price	Nil
Share price at beginning of the Period	\$0.20 ²
Share price at end of the Period	\$0.20
Loss per share	0.16 cents

1. These figures cover the period from incorporation on 27 August 2010 to 30 June 2011.

2. The Company was incorporated on 27 August 2010 with an issued capital of 1 share of \$0.20.

Due to the Company currently being in an exploration and evaluation phase, the Company's earnings is not considered to be a principal performance indicator. However, the overall level of key management personnel remuneration takes into account the achievement of strategic objectives, service criteria and growth in share price.

REMUNERATION REPORT

REMUNERATION STRUCTURE (continued)

Consequences of performance on shareholder wealth (continued)

The overall level of key management personnel remuneration takes into account the performance of the Company since the Company's incorporation on 27 August 2010. As a result, remuneration was not paid to directors or executives until the Company was admitted to the Official List of ASX in July 2011. Furthermore, total remuneration for all non-executive directors has remained unchanged since voted upon by shareholders in January 2011.

There were no performance related remuneration transactions during the Period.

EMPLOYMENT AGREEMENTS

The Company has entered into employment agreements with its Executive Chairman and Executive Director. The employment agreements outline the components of remuneration paid to the executives and are reviewed on an annual basis.

Dato Soo Kok Lim, Executive Chairman, has an employment agreement effective from 4 July 2011 with the Company (**EC Employment Agreement**). The EC Employment Agreement specifies the duties and obligations to be fulfilled by the Executive Chairman. The term of the Employment Agreement is 2 years. The Company must pay to Dato Lim \$20,000 per annum (exclusive of statutory superannuation) for Dato Lim's services.

Either Dato Lim or Audalia may terminate the agreement at any time by giving three month's written notice to the other. Dato Lim has no entitlement to termination payment should he terminate the agreement by written notice. Audalia may, by giving written notice to Dato Lim, immediately terminate the agreement should a number of specified occurrences happen, including a serious breach of the agreement or serious misconduct. Dato Lim has no entitlement to termination payment in the event of removal for misconduct.

Mr Siew Swan Ong, Executive Director, has an employment agreement effective from 4 July 2011 with the Company (**ED Employment Agreement**). The ED Employment Agreement specifies the duties and obligations to be fulfilled by the Executive Director. The term of the ED Employment Agreement is 2 years. The Company must pay to Mr Ong \$20,000 per annum (exclusive of statutory superannuation) for Mr Ong's services.

Either Mr Ong or Audalia may terminate the agreement at any time by giving three month's written notice to the other. Mr Ong has no entitlement to termination payment should he terminate the agreement by written notice. Audalia may, by giving written notice to Mr Ong, immediately terminate the agreement should a number of specified occurrences happen, including a serious breach of the agreement or serious misconduct. Mr Ong has no entitlement to termination payment in the event of removal for misconduct.

Refer to Note 13 for details on the financial impact in future periods resulting from firm commitments arising from non-cancellable contracts for services with directors.

REMUNERATION REPORT

REMUNERATION OF KEY MANAGEMENT PERSONNEL

Details of the nature and amount of each major element of the remuneration of each key management person of the Company are:

		SHORT-TERM	POST-EMPLOYMENT	SHARE-BASED PAYMENTS	Total	Performance related
		Salary & fees \$	Superannuation benefits \$	Options \$		
Directors						
<i>Non-executive</i>						
Mr B Butler	2011	-	-	-	-	-
Mr A Ho ¹	2011	-	-	-	-	-
<i>Executive</i>						
Dato S K Lim	2011	-	-	-	-	-
Mr S S Ong	2011	-	-	-	-	-
Mr G C Ooi ²	2011	-	-	-	-	-
Total, all directors		-	-	-	-	-
<i>Other KMP</i>						
Ms K Logan ³	2011	-	-	-	-	-
Total, all executives		-	-	-	-	-
Total, all directors and executives		-	-	-	-	-

Notes in relation to the table of remuneration:

1. Resigned 17 August 2011.
2. Resigned 5 April 2011.
3. In addition to the remuneration as disclosed above, a total of \$99,544 was paid to Townshend York Pty Ltd for secretarial, accounting and consultancy services provided by Ms Karen Logan to the Company.

Non-executive directors' fees commenced from the date of the Company's admission to the Official List of ASX on 4 July 2011. Dato Lim and Mr Ong's employment agreements were also effective from that date.

SHARE-BASED REMUNERATION

There were no share-based remuneration transactions during the Period.

End of Remuneration Report (Audited).

CORPORATE GOVERNANCE STATEMENT

The Board of Directors is responsible for the operational and financial performance of the Company, including its corporate governance. During the Period, the Board adopted a corporate governance framework for the Company which is underpinned by the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations with 2010 Amendments* (2nd Edition) (the **Recommendations**) applicable to ASX-listed entities.

This Corporate Governance Statement provides details of the Company's compliance with those Recommendations, or where appropriate, indicates a departure from the Recommendations with an explanation. A checklist summarising the Company's compliance with the Recommendations is also set out at the end of this statement.

Audalia's corporate governance policies are available on the Company's website: www.audalia.com.au.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Board Charter

The Board is accountable to shareholders for the performance of the Company. The Board operates under the Board Charter that details its functions, responsibilities and powers and those delegated to management.

On appointment, non-executive directors receive formal letters of appointment setting out the terms and conditions of appointment. The formal letter of appointment covers the matters referred to in the guidance and commentary for Recommendation 1.1. Executive directors are employed pursuant to employment agreements.

Evaluation of the performance of senior executives

The performance of senior executives will be evaluated in accordance with the Performance Evaluation Process. As the Performance Evaluation Process was only adopted in April 2011, the first performance evaluation for senior executives will take place in the 2012 reporting period.

The Board Charter and Performance Evaluation Process are available on the Company's website.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Composition of the Board

The Board consists of the Executive Chairman, Executive Director and one non-executive director. Details of their skills, experience and expertise and the period of office held by each director have been included in the Directors' Report. The number of board meetings and the attendance of the directors are set out in the Directors' Report.

The roles of Chairman and the Executive Director are not exercised by the same individual. The Board Charter summarises the roles and responsibilities of the Chairman, Dato Lim, and the Executive Director, Mr Ong.

Independence of non-executive directors

The Board has assessed the independence of the non-executive directors using defined criteria of independence and materiality consistent with the guidance and commentary for Recommendation 2.1.

Although Mr Butler holds 530,000 fully paid ordinary shares and 15,000 options in the Company, the Board considers this immaterial. Mr Butler is regarded as independent as he is not a substantial shareholder as defined by the *Corporations Act*.

The Company is at variance with Recommendations 2.1 and 2.2 in that the majority of directors are not independent and the Chairman is not independent. The Board has determined that the composition of the current Board represents the best mix of directors that have an appropriate range of qualifications and expertise, can understand and competently deal with current and emerging business issues and can effectively review and challenge the performance of management. Furthermore, each individual member of the Board is satisfied that whilst the Company may not comply with Recommendations 2.1 and 2.2, all directors bring an independent judgement to bear on Board decisions.

CORPORATE GOVERNANCE STATEMENT

Nomination and Remuneration Committee

The Nomination and Remuneration Committee consists of two members and is chaired by Mr Butler, who is an independent non-executive director.

The Nomination and Remuneration Committee Charter sets out its role, responsibilities and membership requirements. The Charter reflects the matters set out in the commentary and guidance for Recommendation 2.4.

For information on the skills, experience and expertise of the Nomination and Remuneration Committee member, refer to the Directors' Report.

Details of the members and their attendance at meetings of the Nomination and Remuneration Committee are included in the Directors' Report.

The Company is at variance with Recommendation 2.4 in that the Nomination and Remuneration Committee only has two members, of which one is an executive director. The Board considers that this composition is appropriate given the current size of the Company.

Board renewal and succession planning

The appointment of directors is governed by the Company's Constitution and the Appointment and Selection of New Directors policy. In accordance with the Constitution of the Company, no director except a Managing Director shall hold office for a continuous period in excess of three years or past the third annual general meeting following the director's appointment, whichever is the longer, without submitting for re-election.

The Company has not adopted a policy in relation to the retirement or tenure of directors.

The appointment of the Company Secretary is a matter for the Board. Information on the skills, experience and qualifications of the Company Secretary can be found in the Directors' Report.

Evaluation of the performance of the Board, its committees and individual directors

The performance of the Board, its committees and individual directors will be evaluated in accordance with the Performance Evaluation Process. As the Performance Evaluation Process was only adopted in April 2011, performance evaluations of the Board and individual directors will take place in the 2012 reporting period.

Performance evaluations of the Nomination and Remuneration Committee, the Audit and Risk Committee did not take place in the reporting period. Since the formation of those Committees in April 2011, no meeting has been convened. Consequently, the Board agreed to defer evaluation of the performance of those Committees until the 2012 reporting period.

Induction and education

When appointed to the Board, a new director will receive an induction appropriate to their experience. Directors may participate in continuing education to update and enhance their skills and knowledge from time to time, as considered appropriate.

Access to information and advice

Directors are entitled to request and receive such additional information as they consider necessary to support informed decision-making. The Board also has a policy under which individual directors and Board committees may obtain independent professional advice at the Company's expense in relation to the execution of their duties, after consultation with the Chairman.

The Company's Constitution, Nomination and Remuneration Committee Charter and the policy for Appointment and Selection of New Directors are available on the Company's website.

CORPORATE GOVERNANCE STATEMENT

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Code of Conduct

The Board has adopted a Code of Conduct which applies to all directors and officers of the Company. It sets out Audalia's commitment to successfully conducting the business in accordance with all applicable laws and regulations while demonstrating and promoting the highest ethical standards. The Code of Conduct reflects the matters set out in the commentary and guidance for Recommendation 3.1.

Diversity Policy

The Board has adopted a Diversity Policy which sets out the Company's aims and practices in relation to recognising and respecting diversity in employment. The Policy reinforces the Company's commitment to actively managing diversity as a means of enhancing the Company's performance by recognising and utilising the contributions of diverse skills and talent from its employees.

The Diversity Policy reflects the matters set out in the commentary and guidance for Recommendation 3.2.

Gender Diversity

The Board is responsible for establishing and monitoring on an annual basis the achievement against gender diversity objectives and strategies, including the representation of women at all levels of the organisation.

The proportion of women within the whole organisation as at the date of this report are as follows:

	%
Women employees in the whole organisation	25%
Women in senior executive positions	25%
Women on the Board of Directors	0%

The Board acknowledges the absence of female participation on the Board of Directors. However, as noted above, the Board has determined that the composition of the current Board represents the best mix of directors that have an appropriate range of qualifications and expertise, can understand and competently deal with current and emerging business issues and can effectively review and challenge the performance of management.

The Company is at variance with Recommendation 3.3 in that it has not set or disclosed measurable objectives for achieving gender diversity in accordance with its Diversity Policy. Due to the size of the Company, the Board does not deem it practical to limit the Company to specific targets for gender diversity as it operates in a very competitive labour market where positions are sometimes difficult to fill. However, every candidate suitably qualified for a position has an equal opportunity of appointment regardless of gender, age, ethnicity or cultural background.

The Code of Conduct and Diversity Policy are available on the Company's website.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Audit and Risk Committee

The Audit and Risk Committee consists of two members and is chaired by an independent non-executive director, Mr Butler.

The Audit and Risk Committee Charter sets out its role, responsibilities and membership requirements. The Charter reflects the matters set out in the commentary and guidance for Recommendation 4.3.

For information on the skills, experience and expertise of the Audit and Risk Committee members, refer to the Directors' Report.

Details of the members and their attendance at meetings of the Audit and Risk Committee are included in the Directors' Report.

The Company is at variance with Recommendation 4.2 in that the Audit and Risk Committee only has two members, of which one is an executive director. The Board considers that this composition is appropriate given the current size of the Company.

CORPORATE GOVERNANCE STATEMENT

External auditor

Consistent with its Charter, the Audit and Risk Committee reviews the external auditor's terms of engagement and audit plan, and assesses the independence of the external auditor. The current practice, subject to amendment in the event of legislative change, is for the rotation of the engagement partner to occur every five years.

The Company's independent external auditor is BDO Audit (WA) Pty Ltd. The appointment of BDO Audit (WA) Pty Ltd will be put to members at the inaugural Annual General Meeting.

The Audit and Risk Committee Charter is available on the Company's website.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

The Continuous Disclosure Policy sets out the key obligations of the directors and employees in relation to continuous disclosure as well as the Company's obligations under the Listing Rules and the Corporations Act. The Policy also provides procedures for internal notification and external disclosure, as well as procedures for promoting understanding of compliance with the disclosure requirements for monitoring compliance.

The Policy reflects the matters set out in the commentary and guidance for Recommendation 5.1.

The Continuous Disclosure Policy is available on the Company's website.

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

The Shareholder Communications Policy sets out the Company's aims and practices in respect of communicating with both current and prospective shareholders. The Policy reinforces the Company's commitment to promoting investor confidence by requiring:

- compliance with the continuous disclosure obligations;
- compliance with insider trading laws;
- compliance with financial reporting obligations;
- compliance with shareholder meeting requirements, including the provision of an opportunity for shareholders and other stakeholders to hear from and put questions to the Board, management and auditor of the Company;
- communication with shareholders in a clear, regular, timely and transparent manner; and
- response to shareholder queries in a prompt and courteous manner.

The Policy reflects the matters set out in the commentary and guidance for Recommendation 6.1.

The Shareholder Communications Policy is available on the Company's website.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Risk Management Policy

Audalia recognises that risk is inherent to any business activity and that managing risk effectively is critical to the immediate and future success of the Company. As a result, the Board has adopted a Risk Management Policy which sets out the Company's system of risk oversight, management of material business risks and internal control.

Risk oversight

Audalia's risk management framework is supported by the Board of Directors, 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 also has delegated responsibilities in relation to risk management and the financial reporting process as set out in the Audit and Risk Committee Charter. Further detail regarding the Audit and Risk Committee can be found above at Principle 4: Safeguarding integrity in financial reporting.

CORPORATE GOVERNANCE STATEMENT

Reporting and assurance

When considering the Audit and Risk Committee's review of financial reports, the Board receives a written statement declaration in accordance with section 295A of the *Corporations Act*, signed by the Executive Chairman and Executive Director, that the Company's financial reports give a true and fair view, in all material respects with, of the Company's financial position and comply in all material respects with relevant accounting standards. This statement also confirms that the Company's financial reports are founded on a sound system of risk management and internal control and that the system is operating effectively in relation to financial reporting risks.

Similarly, in a separate written statement the executive Chairman and the Chairman of the Audit and Risk Committee also confirm to the Board that the Company's risk management and internal control systems are operating effectively in relation to material business risks for the period, and that nothing has occurred since period-end that would materially change the position.

The Risk Management Policy is available on the Company's website.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Nomination and Remuneration Committee

The Nomination and Remuneration Committee has delegated responsibilities in relation to the Company's remuneration policies as set out in the Nomination and Remuneration Committee Charter. The Charter reflects the matters set out in the commentary and guidance for Recommendation 8.1. Further detail regarding the Nomination and Remuneration Committee can be found above at Principle 2: Structure the board to add value.

The Company is at variance with Recommendation 8.2 in that the Nomination and Remuneration Committee only has two members. The Board considers that this composition is appropriate given the current size of the Company.

Non-executive directors' remuneration policy

The structure of non-executive directors' remuneration is clearly distinguished from that of executives. Remuneration for non-executive directors is fixed. Total remuneration for all non-executive directors, last voted upon by shareholders at the 2011 General Meeting, is not to exceed \$300,000 per annum. Non-executive directors do not receive performance related compensation. Neither the non-executive directors nor the executives of the Company receive any retirement benefits, other than superannuation.

Executive directors' remuneration policy

As noted previously, the Executive Chairman and Executive Director are employed pursuant to employment agreements. Summaries of these employment agreements are set out in the Remuneration Report.

Further details regarding the remuneration arrangements of the Company are set out in the Remuneration Report.

The checklist below summarises the Company's compliance with the Recommendations.

	Requirement	Comply Yes/ No	Reference/ Explanation
Pr 1	Lay solid foundations for management and oversight		
Rec 1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose the functions.	Yes	Website & Page 12
Rec 1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes	Website & Page 12
Rec 1.3	Companies should provide the information indicated in the Guide to reporting to Principle 1.	Yes	Website & Page 12
Pr 2	Structure the board to add value		
Rec 2.1	A majority of the board should be independent directors.	No	Website & Page 12
Rec 2.2	The chair should be an independent director.	No	Website & Page 12

CORPORATE GOVERNANCE STATEMENT

Requirement	Comply Yes/ No	Reference/ Explanation
Rec 2.3	No	Website & Page 12
Rec 2.4	No	Website & Page 13
Rec 2.5	Yes	Website & Page 13
Rec 2.6	Yes	Website & Page 12 & 13
Pr 3 Promote ethical and responsible decision making		
Rec 3.1	Yes	Website & Page 14
Rec 3.2	Yes	Website & Page 14
Rec 3.3	No	Website & Page 14
Rec 3.4	Yes	Website & Page 14
Rec 3.5	Yes	Website & Page 14
Pr 4 Safeguard integrity in financial reporting		
Rec 4.1	Yes	Website & Page 14
Rec 4.2	No	Website & Page 14
Rec 4.3	Yes	Website & Page 14
Rec 4.4	Yes	Website & Page 14
Pr 5 Make timely and balanced disclosure		
Rec 5.1	Yes	Website & Page 15
Rec 5.2	Yes	Website & Page 15

CORPORATE GOVERNANCE STATEMENT

	Requirement	Comply Yes/ No	Reference/ Explanation
Pr 6	Respect the rights of shareholders		
Rec 6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes	Website & Page 15
Rec 6.2	Company should provide the information indicated in the Guide to reporting on Principle 6.	Yes	Website & Page 15
Pr 7	Recognise and manage risk		
Rec 7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	Website & Page 15
Rec 7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Yes	Website & Page 15
Rec 7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes	Website & Page 15
Rec 7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	Yes	Website & Page 15 & 16
Pr 8	Remunerate fairly and responsibly		
Rec 8.1	The board should establish a remuneration committee.	Yes	Website & Page 16
Rec 8.2	The remuneration committee should be structured so that it: <ul style="list-style-type: none"> ▪ consists of a majority of independent directors; ▪ is chaired by an independent chair; and ▪ has at least three members. 	No	Website & Page 13 & 16
Rec 8.2	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Yes	Website & Page 16
Rec 8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Yes	Website & Page 13 & 16

STATEMENT OF COMPREHENSIVE INCOME
for the period from incorporation on 27 August 2010 to 30 June 2011

	Note	2011 \$
Income		5,716
Operational expenses		(7,026)
Corporate and administrative expenses		(96,396)
		(97,706)
Loss before income tax		(97,706)
Income tax	4	-
		-
Loss for the period		(97,706)
Other comprehensive income		
Other comprehensive income		-
		-
Total comprehensive loss for the period attributable to the owners of the Company		(97,706)
Loss per share for loss attributable to the ordinary equity holders of the Company		
Basic loss per share (cents)	14	(0.16)

Diluted loss per share is not shown as all potential ordinary shares on issue would decrease the loss per share and are thus not considered dilutive.

The statement of comprehensive income is to be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION
as at 30 June 2011

	Note	2011 \$
CURRENT ASSETS		
Cash and cash equivalents	5	2,361,588
Trade and other receivables	6	<u>29,471</u>
Total Current Assets		<u>2,391,059</u>
NON-CURRENT ASSETS		
Other assets	7	1,979
Exploration and evaluation assets	8	<u>251,511</u>
Total Non-Current Assets		<u>253,490</u>
TOTAL ASSETS		<u>2,644,549</u>
CURRENT LIABILITIES		
Trade and other payables	9	<u>113,667</u>
Total Current Liabilities		<u>113,667</u>
TOTAL LIABILITIES		<u>113,667</u>
NET ASSETS		<u>2,530,882</u>
EQUITY		
Contributed equity	10	2,618,588
Reserves	11	10,000
Accumulated losses	12	<u>(97,706)</u>
TOTAL EQUITY		<u>2,530,882</u>

The statement of financial position is to be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY
for the period from incorporation on 27 August 2010 to 30 June 2011

	Contributed Equity \$	Reserves \$	Accumulated Losses \$	Total \$
Balance as at 27 August 2010	-	-	-	-
Loss for the Period	-	-	(97,706)	(97,706)
Total comprehensive loss for the period			(97,706)	(97,706)
<i>Transactions with equity holders in their capacity as equity holders:</i>				
Shares issued	2,837,500	-	-	2,837,500
Transaction costs on share issues	(218,912)	-	-	(218,912)
Share-based payment	-	10,000	-	10,000
Balance as at 30 June 2011	2,618,588	10,000	(97,706)	2,530,882

The statement of changes in equity is to be read in conjunction with accompanying notes.

STATEMENT OF CASH FLOWS
for the period from incorporation on 27 August 2010 to 30 June 2011

	Note	2011 \$
Cash flows used in operating activities		
Payments to suppliers and employees		(79,479)
Payments for exploration and evaluation expenses		(9,005)
Interest received		<u>5,612</u>
Net cash used in operating activities	17	<u>(82,872)</u>
Cash flows used in investing activities		
Payments for exploration and evaluation assets – acquisition costs		(250,000)
Payments for exploration and evaluation assets – capitalised costs		<u>(1,511)</u>
Net cash used in investing activities		<u>(251,511)</u>
Cash flows from financing activities		
Net proceeds from the issue of shares	10	<u>2,695,971</u>
Net cash provided by financing activities		<u>2,695,971</u>
Net increase in cash held		2,361,588
Cash and cash equivalents at 27 August 2010		-
Cash and cash equivalents at 30 June 2011	5	<u><u>2,361,588</u></u>

The statement of cash flows is to be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

for the period from incorporation on 27 August 2010 to 30 June 2011

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The financial report of Audalia Resources Limited for the Period ended 30 June 2011 was authorised for issue in accordance with a resolution of the directors on 29 September 2011.

Audalia Resources Limited (the **Company**) is a public company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activities of the Company are described in the Directors' Report.

Basis of preparation

Statement of compliance

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards (**AASBs**) and other authoritative pronouncements of the Australian Accounting Standards Board (**AASB**). The financial report of the Company also complies with the International Financial Reporting Standards (**IFRSs**) issued by the International Accounting Standards Board.

Basis of measurement

The financial report is prepared on the accruals basis and the historical cost basis.

The financial report is presented in Australian dollars and all values are rounded to the nearest dollar unless otherwise stated.

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the Company.

Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are outlined below:

Exploration and evaluation expenditure

The write-off and carrying forward of exploration acquisition costs is based on an assessment of an area of interest's viability and/or the existence of economically recoverable reserves.

Deferred taxation

Deferred tax assets in respect of tax losses have not been brought to account as it is not considered probable that future taxable profits will be available against which they could be utilised.

Summary of Significant Accounting Policies

Segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the level of segment information presented to the Board of Directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

NOTES TO THE FINANCIAL STATEMENTS

for the period from incorporation on 27 August 2010 to 30 June 2011

Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Cash and cash equivalents

Cash and cash equivalents 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 that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently at amortised cost less any impairment losses recognised. Collectability of trade receivables is reviewed on an ongoing basis. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Company will not be able to collect all amounts due.

Exploration and evaluation expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made. When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits.

Such costs are determined using estimates of future costs, current legal requirements and technology on an undiscounted basis. Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs are determined on the basis that the restoration will be completed within one year of abandoning the site.

Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company. Trade accounts payable are normally settled within 60 days.

NOTES TO THE FINANCIAL STATEMENTS

for the period from incorporation on 27 August 2010 to 30 June 2011

Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Contributed equity

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.

Revenue recognition

Revenue represents interest received and reimbursements of exploration expenditures and is recognised to the extent that it is probable that the economic benefits will flow to the Company and can be reliably measured. Interest income is recognised as it accrues.

Income tax

Deferred income tax is provided on all temporary differences at the reporting 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:

- (a) 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 the accounting profit nor taxable profit or loss; and
- (b) 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 can be controlled and it is probable that 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:

- (a) 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
- (b) in respect of deductible temporary differences associated 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 reporting 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.

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 reporting date.

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

The Company has unused tax losses. However, no deferred tax balances have been recognised, as it is considered that asset recognition criteria have not been met at this time.

NOTES TO THE FINANCIAL STATEMENTS

for the period from incorporation on 27 August 2010 to 30 June 2011

Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Leases

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

Loss per share

Basic loss per share is calculated by dividing the net loss attributable to members of the Company for the reporting period by the weighted average number of ordinary shares of the Company.

New accounting standards and interpretations

The following new standards and amendments to standards are mandatory for the financial year beginning 1 July 2010:

- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASB 5, 8, 101, 107, 117, 118, 136, and 139)
- AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASB 3, 7, 121, 128, 131, 132 and 139)
- AASB Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments and AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19.

The adoption of these standards did not have any impact in the current period and is unlikely to affect future periods.

New accounting standards and interpretations that are not yet mandatory

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report:

- (i) AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard is not expected to impact on the Company's accounting for financial assets as it does not have any available for sale assets. There will be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such liabilities. The Company has decided not to early adopt AASB 9.

- (ii) Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011)

NOTES TO THE FINANCIAL STATEMENTS

for the period from incorporation on 27 August 2010 to 30 June 2011

New accounting standards and interpretations that are not yet mandatory (cont'd)

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party. The Company will apply the amended standard from 1 July 2011. When the amendments are applied, the Company will need to disclose any transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognised in the financial statements.

- (iii) AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective from 1 July 2013)

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Audalia Resources Limited is listed on the ASX and is not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the entity.

Comparatives

The Company was incorporated on 27 August 2010. These financial statements are for the period from incorporation to 30 June 2011 (the **Period**) and consequently no comparatives are necessary.

2. FINANCIAL RISK MANAGEMENT

Overview

The Company has exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market 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. Further quantitative disclosures are included in Note 18.

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.

The Board has established an overall Risk Management Policy which sets out the Company's system of risk oversight, management of material business risks and internal control.

Financial risk management objectives

The overall financial risk management strategy focuses on the unpredictability of the finance markets and seeks to minimise the potential adverse effects on financial performance and protect future financial security.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash and cash equivalents.

The Company does not hold any credit derivatives to offset its credit exposure.

Liquidity risk

Liquidity risk arises from the financial liabilities of the Company and the Company's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due.

NOTES TO THE FINANCIAL STATEMENTS
for the period from incorporation on 27 August 2010 to 30 June 2011

2. FINANCIAL RISK MANAGEMENT (cont'd)

Liquidity risk (cont'd)

Ultimate responsibility for liquidity risk management rests with the Board of Directors. The Board has determined an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves and continuously monitoring budgeted and actual cash flows and matching the maturity profiles of financial assets, expenditure commitments and liabilities.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and commodity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return.

Interest rate risk

The Company's exposure to interest rates primarily relates to the Company's cash and cash equivalents. The Company manages market risk by monitoring levels of exposure to interest rate risk and assessing market forecasts for interest rates.

Other market price risk

The Company is involved in the exploration and development of mining tenements for minerals. Should the Company successfully progress to a producer, revenues associated with mineral sales, and the ability to raise funds through equity and debt, will have some dependence upon commodity prices.

Capital management

When managing capital, the Board's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. The Board also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

The Board are constantly adjusting the capital structure to take advantage of favourable costs of capital or high return on assets. As the market is constantly changing, management may issue new shares, sell assets to reduce debt or consider payment of dividends to shareholders.

The Board has no current plans to issue further shares on the market.

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.

The Company has no formal financing and gearing policy or criteria during the Period having regard to the early status of its development and low level of activity.

There were no changes in the Company's approach to capital management during the Period.

The Company is not subject to any externally imposed capital requirements.

3. AUDITOR'S REMUNERATION	2011 \$
Audit Services	
<i>BDO Audit (WA) Pty Ltd</i>	
- audit of financial report	22,720
Other Services	
<i>BDO Corporate Finance (WA) Pty Ltd</i>	
- investigating accountant's report for inclusion in a prospectus	6,939
	29,659

NOTES TO THE FINANCIAL STATEMENTS
for the period from incorporation on 27 August 2010 to 30 June 2011

4. INCOME TAX

	2011 \$
(a) Income tax expense	-
(b) Numerical reconciliation between tax expense and pre-tax net loss	
Loss before income tax expense	(97,706)
Income tax benefit calculated at rates noted in (d) below	(29,312)
Effect of non-deductible items	1,584
Increase in deferred tax balances not brought to account	27,728
Income tax expense	-
(c) Deferred tax assets not brought to account	
- Carry forward tax losses	34,522
- Capital raising costs	52,539
- Provisions and accruals	6,794
- Other	438
Potential at 30%	94,293

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 affect the Company in utilising the benefits.

Deferred tax liabilities at 30%	
- Exploration and evaluation costs	1,511
	1,511

The above deferred tax liabilities have not been recognised as they have given rise to the carry forward revenue losses for which the deferred tax asset has not been recognised.

(d) Tax Rates

The potential tax benefit in respect of tax losses not brought into account has been calculated at 30%.

5. CASH AND CASH EQUIVALENTS

Cash at bank and in hand	2,361,588
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The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 18.

6. TRADE AND OTHER RECEIVABLES

GST recoverable	15,901
Sundry debtors	13,570
	29,471

The Company's exposure to credit risk related to trade and other receivables is disclosed in Note 18.

NOTES TO THE FINANCIAL STATEMENTS
for the period from incorporation on 27 August 2010 to 30 June 201

7. OTHER ASSETS	2011 \$
Prepaid exploration expenditure	<u><u>1,979</u></u>

8. EXPLORATION AND EVALUATION ASSETS

Exploration, evaluation and development costs carried forward in respect of areas of interest	<u><u>251,511</u></u>
---	-----------------------

Reconciliation

Cost as at 27 August 2010	-
Exploration and evaluation	1,511
Acquisition of Gascoyne Tenements	<u>250,000</u>
Cost as at 30 June 2011	<u><u>251,511</u></u>

The value of the exploration, evaluation and development costs carried forward is dependent upon the continuance of the Company's rights to tenure of the area of interest, the results of future exploration, and the recoupment of costs through successful development and exploitation of the areas of interest or alternatively by their sale.

9. TRADE AND OTHER PAYABLES

Trade creditors	55,101
Other creditors and accruals	<u>58,566</u>
	<u><u>113,667</u></u>

The Company's exposure to credit and liquidity risks related to trade and other payables are disclosed in Note 18.

10. CONTRIBUTED EQUITY

80,160,001 fully paid ordinary shares	<u><u>2,618,588</u></u>
---------------------------------------	-------------------------

(a) Ordinary shares

The following movements in ordinary share capital occurred during the Period:

	Number of Shares	\$
Balance at beginning of Period	-	-
Issue of shares at \$0.20 each on incorporation	1	0.20
Issue of shares at \$0.0001 each	55,000,000	5,500
Issue of shares at \$0.04 each	7,500,000	300,000
Issue of shares at \$0.10 each	10,000,000	1,000,000
Issue of shares at \$0.20 each	7,660,000	1,532,000
Share issue costs	<u>-</u>	<u>(218,912)</u>
Balance at the end of the Period	<u><u>80,160,001</u></u>	<u><u>2,618,588</u></u>

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.

NOTES TO THE FINANCIAL STATEMENTS
for the period from incorporation on 27 August 2010 to 30 June 2011

10. CONTRIBUTED EQUITY (cont'd)

(b) Options

The following options to subscribe for ordinary fully paid shares were granted during the Period:

Class	Expiry date	Exercise Price	Date Granted	Number of Options
Listed Options (ACPO)	28 April 2014	\$0.20	29 June 2011	6,830,004*

* Of these, the Company issued 3,000,000 Listed Options in satisfaction of \$10,000 of management fees payable pursuant to an agreement with C K Locke & Partners Pty Ltd, lead manager to the IPO Offer. Refer Note 17 (b) for further details of this share-based payment.

None of these options were exercised or lapsed during the Period and all remained outstanding at 30 June 2011. These options do not entitle the holder to participate in any share issue of the Company or any other entity.

(c) Capital management

The Company's objectives when managing capital are disclosed in Note 2.

11. RESERVES

2011
\$

Option Reserve

Balance at the beginning of Period	-
Issue of Listed Options for services rendered	10,000
	<hr/>
Balance at the end of the Period	10,000

This reserve was used to record the value of 3,000,000 Listed Options issued in satisfaction of management fees payable pursuant to an agreement with C K Locke & Partners Pty Ltd, lead manager to the IPO Offer. Refer Note 17 (b) for further details of this share-based payment.

12. ACCUMULATED LOSSES

Accumulated losses at the beginning of the Period	-
Net loss for the Period	(97,706)
	<hr/>
Accumulated losses at the end of the Period	(97,706)

13. COMMITMENTS AND CONTINGENCIES

Service commitments

The Company has entered into a service agreement with Townshend York Pty Ltd (**Townshend York**), a company associated with Mr Ho and Mrs Logan, to provide company secretarial services in connection with the operations of the Company, under which Townshend York receives \$48,000 per annum for the first year of the agreement, \$54,000 for the second year and \$60,000 for the third year. At 30 June 2011, the unexpired portion of the term of agreement amounts to \$162,000.

The Company has also entered into a service agreement with Townshend York to provide accounting services in connection with the operations of the Company, under which Townshend York receives \$24,000 per annum. At 30 June 2011, the unexpired portion of the term of agreement amounts to \$72,000.

Refer to Note 15 for details of these key management personnel transactions during the Period.

NOTES TO THE FINANCIAL STATEMENTS
for the period from incorporation on 27 August 2010 to 30 June 2011

13. COMMITMENTS AND CONTINGENCIES (cont'd)

Remuneration commitments

Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities, payable:

	2011
	\$
Within one year	40,000
After one year but not more than five years	40,000
	80,000

Amounts disclosed as remuneration commitments include commitments arising from the employment agreements of directors and executives referred to in the Remuneration Report of the Directors' Report that are not recognised as liabilities and are not included in the compensation of key management personnel.

Exploration commitments

The Company has certain obligations to perform minimum exploration work on mining tenements held. These obligations may vary over time, depending on the Company's exploration program and priorities. These obligations are also subject to variations by negotiation, joint venturing or relinquishing some of the relevant tenements. As at reporting date, total exploration expenditure commitments of the Company which have not been provided for in the financial statements amount up to \$60,000 per annum.

Contingencies

The Company does not have any contingent liabilities at balance and reporting dates.

14. LOSS PER SHARE

Basic and diluted loss per share

The calculation of basic loss per share at 30 June 2011 was based on the following:

	2011
	\$
Loss attributable to ordinary shareholders	
Net loss for the Period	(97,706)
Weighted average number of ordinary shares	Number
Balance at beginning of Period	-
Effect of shares issued on 27 August 2010	1
Effect of shares issued on 10 September 2010	52,500,000
Effect of shares issued on 29 October 2010	5,965,909
Effect of shares issued on 20 April 2011	2,337,662
Effect of shares issued on 29 June 2011	49,740
	60,853,312

Diluted earnings per share must be calculated where potential ordinary shares on issue are dilutive. As the potential ordinary shares on issue would decrease the loss per share in the current period, they are not considered dilutive, and not shown. The number of potential ordinary shares is set out in Note 10.

NOTES TO THE FINANCIAL STATEMENTS
for the period from incorporation on 27 August 2010 to 30 June 2011

15. KEY MANAGEMENT PERSONNEL

Key management personnel compensation

	2011 \$
Short-term employee benefits	-
Post-employment benefits	-
Other benefits	-
Total compensation	-

Detailed remuneration disclosures are provided in the Remuneration Report on pages 8 to 11.

Equity holdings of key management personnel

Shares

The movement during the Period in the number of ordinary shares in Audalia Resources Limited held, directly, indirectly or beneficially by each key management person, is as follows:

	Held at 27 August 2010	Purchases	Granted as remuneration	Other changes	Held at date of resignation	Held at 30 June 2011
Directors						
Dato S K Lim	-	15,750,000	-	-	N/A	15,750,000
Mr S S Ong	-	15,750,000	-	-	N/A	15,750,000
Mr B Butler	-	530,000	-	-	N/A	530,000
Mr A Ho	-	10,000	-	-	N/A	10,000
Mr G C Ooi ¹	-	10,500,001	-	(10,500,000)	1	N/A
Executive						
Ms K Logan	-	500,000	-	-	N/A	500,000

Options and rights over equity instruments

The movement during the Period in the number of options over ordinary shares in Audalia Resources Limited held, directly, indirectly or beneficially by each key management person, is as follows:

	Held at 27 August 2010	Purchases	Granted as remuneration	Other changes	Held at date of resignation	Held at 30 June 2011	Vested during the Period
Directors							
Dato S K Lim	-	-	-	-	N/A	-	-
Mr S S Ong	-	-	-	-	N/A	-	-
Mr B Butler	-	15,000	-	-	N/A	15,000	15,000
Mr A Ho	-	5,000	-	-	N/A	5,000	5,000
Mr G C Ooi ¹	-	-	-	-	-	N/A	N/A
Executive							
Ms K Logan	-	-	-	-	N/A	-	-

No shares or options were granted to key management personnel during the Period as compensation. No options held by key management personnel are vested but not exercisable at 30 June 2011.

NOTES TO THE FINANCIAL STATEMENTS
for the period from incorporation on 27 August 2010 to 30 June 2011

15. KEY MANAGEMENT PERSONNEL (cont'd)

Equity holdings of key management personnel (cont'd)

Notes in relation to the tables of shares and options and rights over equity instruments

- Resigned 5 April 2011.

Other transactions with key management personnel

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of those entities transacted with the Company 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 were as follows:

Director/ Executive	Transaction	Transactions value period ended 30 June 2011 \$	Balance outstanding as at 30 June 2011 \$
Mr A Ho and Ms K Logan	Company secretarial fees ¹	19,369	7,450
	Accounting fees ²	12,625	4,031
	Consultancy fees ³	67,550	32,492

Notes in relation to the table of related party transactions

- A company associated with Mr Ho and Ms Logan, Townshend York Pty Ltd, provides company secretarial 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.
- A company associated with Mr Ho and Ms Logan, Townshend York Pty Ltd, provided accounting services in connection with the operations of the Company. Terms for such services were based on market rates, and amounts were payable on a monthly basis.
- A company associated with Mr Ho and Ms Logan, Townshend York Pty Ltd, provided consultancy services in respect of the Company's IPO. Terms for such services were based on market rates, and amounts were payable on a monthly basis.

16. SEGMENT REPORTING

The Board has determined that the Company has one reportable segment, being mineral exploration in Australia.

30 June 2011	Mineral Exploration \$	Corporate and administrative \$	Company \$
Segment revenue	-	5,716	<u>5,716</u>
Segment result	(7,027)	(90,679)	(97,706)
Segment assets	253,490	2,391,059	<u>2,644,549</u>
Segment liabilities	(381)	(113,286)	<u>(113,667)</u>

NOTES TO THE FINANCIAL STATEMENTS
for the period from incorporation on 27 August 2010 to 30 June 2011

	2011 \$
17. RECONCILIATION OF CASH FLOWS USED IN OPERATING ACTIVITIES	
(a) Cash flows from operating activities	
Loss for the Period	(97,706)
Adjustments for:	
Depreciation	-
Operating loss before changes in working capital and provisions	(97,706)
Change in trade and other receivables	(16,005)
Change in other assets	(1,979)
Change in trade and other payables	32,818
Change in provisions	-
Net cash used in operating activities	(82,872)

(b) Non-cash investing and financing activities

On 25 January 2011, the Company entered into agreement under which Audalia appointed C K Locke & Partners Pty Ltd as lead manager to the IPO Offer. On 29 June 2011, as part consideration for the services, the Company issued 3,000,000 listed options exercisable at \$0.20 each on or before 28 April 2014 in satisfaction of \$10,000 of management fees .

This transaction is not reflected in the Statement of Cash Flows.

18. FINANCIAL INSTRUMENTS DISCLOSURE

Credit risk

Exposure to credit risk

The carrying amount of the Company's financial assets represents the maximum credit exposure. The Company's maximum exposure to credit risk at the reporting date was:

	Carrying Amount 2011 \$
Cash and cash equivalents	2,361,588
Trade and other receivables	29,471
	2,391,059

The credit quality is assessed and monitored as follows:

	Equivalent S&P rating ¹		Internally rated ²	Total
	A+ and above	BBB and below	No default	
Credit quality of financial assets				
At 30 June 2011				
Cash and cash equivalents	2,361,588	-	-	2,361,588
Trade and other receivables – current	-	-	29,471	29,471
	2,361,588	-	29,471	2,391,059

NOTES TO THE FINANCIAL STATEMENTS
for the period from incorporation on 27 August 2010 to 30 June 2011

18. FINANCIAL INSTRUMENTS DISCLOSURE (cont'd)

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.
2. Trade and other receivables consists of GST and withholding tax refundable from the Australian Taxation Office and initial listing fee refundable from ASX.

Allowance for impairment loss

A provision for impairment loss is recognised when there is objective evidence that an individual receivable is impaired.

Balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

Liquidity risk

The following are the contractual maturities of financial liabilities on an undiscounted basis, including estimated interest payments: Cash flows for liabilities without fixed amount or timing are based on conditions existing at year end.

30 June 2011	Carrying amount	Contractual cash flows	1 year	2-5 years
Trade and other payables	113,667	(113,667)	(113,667)	-

Interest rate risk

Profile

At the reporting date the interest rate profile of the Company's interest bearing financial instruments was:

**Carrying
Amount
2011
\$**

Variable rate instruments

Financial assets	2,361,588
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Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. The Board assessed a 100 basis point movement as being reasonably possible based on short term historical movements. This analysis assumes that all other variables remain constant.

A change of 100 basis points in interest rates would have increased or decreased the Company's profit or loss by \$23,616.

Fair value of financial instruments

The fair values of financial assets and liabilities are determined in accordance with generally accepted pricing models based on estimated future cash flows. The Directors consider that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

NOTES TO THE FINANCIAL STATEMENTS
for the period from incorporation on 27 August 2010 to 30 June 2011

19. EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to balance date, the Company was admitted to the Official List of ASX Limited (**ASX**) on 4 July 2011 and official quotation of its shares securities on ASX commenced on 6 July 2011.

The financial effect of the above transaction has not been brought to account in the financial statements for the year.

DIRECTORS' DECLARATION

In the opinion of the directors of Audalia Resources Limited:

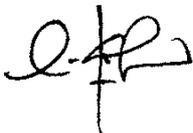
- (a) the financial statements and notes and the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report, set out on pages 8 to 11, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's financial position as at 30 June 2011 and of its performance, for the financial period ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1;
- (c) the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*, the *Corporations Act 2001* and the *Corporations Regulations 2001*; and
- (d) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations from the Executive Chairman and Executive Director required by section 295A of the *Corporations Act 2001* for the period from incorporation on 27 August 2010 to 30 June 2011. In accordance with section 295A, the Executive Chairman and Executive Director declared that:

- (i) the financial records of the Company have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
- (ii) the financial statements and notes comply with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001* in all material respects;
- (iii) the financial statements and notes give a true and fair view, in all material respects, of the financial position and performance of the Company.

Dated at Perth, Western Australia this 29th day of September 2011.

Signed in accordance with a resolution of the directors.



Soo Kok Lim
Executive Chairman

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AUDALIA RESOURCES LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Audalia Resources Limited, which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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 is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the 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 entity'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 entity'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. 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*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Audalia Resources Limited, would be in the same terms if given to the directors as at the time of this auditor's report.



Opinion

In our opinion:

- (a) the financial report of Audalia Resources Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2011 and of its performance for the period 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 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the period ended 30 June 2011. 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.

Opinion

In our opinion, the Remuneration Report of Audalia Resources Limited for the period ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO Audit


Chris Burton
Director

Perth, Western Australia
Dated this 29th day of September 2011

29 September 2011

Audalia Resources Ltd
The Board of Directors
79 Broadway
NEDLANDS WA 6009

Dear Sirs,

DECLARATION OF INDEPENDENCE BY CHRIS BURTON TO THE DIRECTORS OF
AUDALIA RESOURCES LIMITED

As lead auditor of Audalia Resources Limited for the period ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.



Chris Burton
Director



BDO Audit (WA) Pty Ltd
Perth, Western Australia

SHAREHOLDER INFORMATION

Details of shares and options as at 26 September 2011:

Top holders

The 20 largest registered holders of each class of equity security as at 26 September 2011 were:

Fully paid ordinary shares

	Name	No. of Shares	%
1.	Soo Kok Lim	15,750,000	19.65
2.	Siew Swan Ong	15,750,000	19.65
3.	Yek Yek Ong	8,300,000	10.35
4.	Siew Hoong Low	6,700,000	8.36
5.	Ms Anna Moi Chin Chong	4,000,000	4.99
6.	Seng Yee Liew	4,000,000	4.99
7.	Chai Keong Loh	2,350,000	2.93
8.	Wai Heng Ho	1,710,000	2.13
9.	CME Group Berhad	1,400,000	1.75
10.	Seow Pang Ng	1,333,332	1.66
11.	Ring Diong Ding	1,250,000	1.56
12.	Ms Emily Kok	1,250,000	1.56
13.	Silver Capital Pty Ltd <Noel & Sandra Ong family A/C>	1,250,000	1.56
14.	Mr Kah Hui Tan + Mrs Irene Soi Khim	1,250,000	1.56
15.	Chee Thin Toh	1,250,000	1.56
16.	Cheng Seng Lim	833,335	1.04
17.	Ms Karen Poh Lin Chin	666,668	0.83
18.	Mr Min Tuck Goh Fawcett + Mrs Lili Fawcett	666,668	0.83
19.	Ms Cecilia Hua Khing Chiu	533,330	0.67
20.	Ms Sheryl Hogg	510,000	0.64
		70,753,333	88.27

Options exercisable at \$0.20 on or before 28 April 2014

	Name	No. of Options	%
1.	Ring Diong Ding	250,000	6.52
2.	Kim Geok Cesarine Lim	250,000	6.52
3.	Ewe Sean Teoh	166,667	4.34
4.	Ms Emily Kok	125,000	3.26
5.	Kon Neng Chin	83,334	2.18
6.	Cheng Seng Lim	83,334	2.18
7.	Mr Min Tuck Goh + Ms Lili Fawcett	83,334	2.18
8.	Ms Cecilia Hua Khing Chiu	66,667	1.74
9.	Jagdish Murli Chanrai	41,667	1.09
10.	Mr Kok Chee Chua	41,667	1.09
11.	Soo Ka Lim	41,667	1.09
12.	Goffacan Pty Ltd<KMM Family A/C>	20,000	0.52
13.	Mr Hanbin Ye	20,000	0.52
14.	Lai Wah Sim	16,667	0.44
15.	Mah (Australia) Pty Ltd	12,500	0.33
16.	Mr Arif Ahmed	10,000	0.26
17.	Mrs Helen Terzopoulos	10,000	0.26
18.	Mr Arran McDiven	7,500	0.20
19.	Mr Ian John Moody	7,500	0.20
20.	Elonn Tyl	7,500	0.20
		1,345,004	35.12

SHAREHOLDER INFORMATION

Distribution schedules

A distribution schedule of each class of equity security as at 26 September 2011:

Fully paid ordinary shares

Range	Holders	Units	%
1 - 1,000	1	1	0.00
1,001 - 5,000	4	19,700	0.03
5,001 - 10,000	475	4,746,969	5.92
10,001 - 100,000	7	227,364	0.28
100,001 - Over	35	75,165,967	93.77
Total	522	80,160,001	100.00

Options exercisable at \$0.20 on or before 28 April 2014

Range	Holders	Units	%
1 - 1,000	0	0	0.00
1,001 - 5,000	497	2,485,000	64.88
5,001 - 10,000	5	42,500	1.11
10,001 - 100,000	11	510,837	13.34
100,001 - Over	4	791,667	20.67
Total	517	3,830,004	100.00

Substantial shareholders

The names of substantial shareholders and the number of shares to which each substantial shareholder and their associates have a relevant interest, as disclosed in substantial shareholding notices given to the Company, are set out below:

Substantial shareholder	Number of Shares
Soo Kok Lim	15,750,000
Siew Swan Ong	15,750,000
Yek Yek Ong	8,300,000
Siew Hoong Low	6,700,000

Restricted Securities

Fully paid ordinary shares

Number of Shares	Escrow Period
61,000,000	24 months commencing on the date of Official Quotation
5,000,000	12 months from 20 April 2011

Options exercisable at \$0.20 on or before 28 April 2014

Number of Options	Escrow Period
3,000,000	24 months commencing on the date of Official Quotation

SHAREHOLDER INFORMATION

Unmarketable parcels

Holdings less than a marketable parcel of ordinary shares (being 2,500 as at 26 September 2011):

<u> Holders </u>	<u> Units </u>
1	1

Voting Rights

The voting rights attaching to ordinary shares are:

On a show of hands, every member present in person or by proxy shall have one vote, and upon a poll, each share shall have one vote.

Options do not carry any voting rights.

On-Market Buy Back

There is no current on-market buy-back.

ASX Admission Statement

During the Period, the Company has applied its cash in a way consistent with its business objectives.

SUMMARY OF TENEMENTS

Summary of tenements as 26 September 2011

Projects	Licence Number	Area (km ²)	Registered Holder / Applicant	Status	Audalia Interest
Western Australia					
McCarthy Well	E09/1568	18.66	Kingsfield Pty Ltd	Granted	100%
	E09/1569	46.65	Kingsfield Pty Ltd	Granted	100%
	E09/1570	27.99	Kingsfield Pty Ltd	Granted	100%
Gascoyne	E09/1824	34.21	Audalia Resources Limited	Pending	100%
	E09/1825	208.37	Audalia Resources Limited	Pending	100%