



ACN 146 035 690

INTERIM FINANCIAL REPORT
31 December 2011

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DIRECTORS' REPORT

The directors present the financial report of Audalia Resources Limited (the **Company**) for the half-year ended 31 December 2011 and the auditor's review report thereon:

DIRECTORS

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

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 Boo Lye (Andrew) Kwa

Non-Executive Director – Appointed: 11 October 2011

Mr Anthony Ho

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

REVIEW OF OPERATIONS

Overview

Medcalf Project

- The Vanadium - Titanium Project was purchased on 30 November 2011 for a cash consideration of \$150,000 plus GST.
- Project consists of three granted exploration licences and covers an area of 18km² in the Lake Johnson district, 470km south east of Perth, Western Australia.
- The Project has been explored for nickel, copper, vanadium, titanium, iron, platinum group metals and gold. Current targets are vanadium and titanium.
- There are three vanadium and titanium mineralised areas on the project named Vesuvius, Fuji and Egmont.
- Audalia have completed a first pass geological reconnaissance during January 2012 and have crosschecked previous mapping and location of drillholes.
- Audalia plans to conduct metallurgical testwork on the Vanadium-Titanium deposits.

Gascoyne Base Metal Project

- Field reconnaissance and preliminary rock chip sampling completed in July 2011.
- Two newly granted licences complement the project.
- Project consists now of five exploration licences and covers an area of 324km² in the Gascoyne district, 830km north of Perth, Western Australia.
- Rock chip sampling of gossanous and quartz outcrop areas has returned anomalous levels of Pb (138 ppm), Zn (202 ppm) and Cu (240 ppm). In addition, anomalous results of pathfinder elements Mo (24.3ppm) and BA (2880ppm)

DIRECTORS' REPORT

Medcalf Vanadium Titanium Project

The Medcalf project is located at 6,398,481 S and 293,153 E some 470km south east (bearing 1000) of Perth, West Australia. By road, the distance totals 581.3km. Access to the project from Perth is via the Brookton paved highway (route 49) to Hyden, a distance of 375km. Head east on the Hyden – Norseman road. This road is paved for the first 45km, and then it is all gravel from that point. From Hyden, travel east 155km to the Maggie Hay's mine turn off to the south. Head south for 3.3km and then head south east taking the airstrip road.



Figure 1: Medcalf Location

Regional geology

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

The eastern and northern limits of the Lake Johnston greenstone belt are defined by the large northwest-trending Koolyanobbing shear zone. To the west the greenstones are bound by granitoids and gneissic rocks which extend some 70km west to the Forrestania- Southern Cross greenstone belt. To the south the greenstones appear to pinch out in granites but a weak magnetic signature and data in a minor open file report suggest there is continuity of mafic rocks south towards Lake Tay.

DIRECTORS' REPORT

To the northwest and west of the greenstone belt proper a number of small isolated remnants of greenstone rocks are contained within the granitoids. Due to the continuous extent of banded iron formations (BIF), and a similar metamorphic grade, the Lake Johnston greenstone belt is thought to have more similarities to the Forrestania-Southern Cross greenstone belt than to the Norseman - Wiluna greenstone belt. Limited radiometric dating also provides evidence of similar ages for the Lake Johnston and the Forrestania belts both of which appear older than the dates from the Norseman area. Notwithstanding this, the GSWA in the 1970 vintage geological interpretation of the Lake Johnston area (1:250,000 scale GSWA explanatory notes) correlate the southern end of the Lake Johnston belt with the southern end of the Norseman belt.

The western margin of the Lake Johnston greenstone belt consists of a west facing succession of mafic and felsic volcanics, some sediment horizons, including BIF, and three ultramafic units. The volcanics and sediments are flanked and intruded by granitic rocks, which disrupt continuity of the greenstone belt.

Pegmatitic and doleritic dykes are common. The sequence is extensively faulted, and gently inclined, north- and south-plunging folds have been recognised. The boundaries of the greenstone belt are thought to largely be defined by strike parallel shears and faults. The overall structure has been interpreted by earlier workers as a complementary north plunging antiform (the Golden Anticline) which closes in the north at Roundtop Hill and a north plunging synform (the Burmeister Syncline) with a closure 50km southeast of Maggie Hays.

Recent work in the area has emphasised the significance of early thrust faulting which has complicated the age relationships between rock units. This may significantly replicate the occurrence of favourable contacts and therefore enhance exploration possibilities. In some areas, the BIF may have served as a favourable surface for thrusting. Subsequent to thrusting the belt has been affected by folding and faulting at a high angle to the strike of the belt. The bedrock geology is widely masked by lateritic duricrust, deep oxidation and transported material. The average thickness of the regolith and weathered bedrock is 60 to 80m. Weathering of ultramafic rock types is often intense with widespread development of silica-rich "cap-rock" in the saprolite zone.

Regional mineralisation and exploration models

Mineralisation in the Lake Johnston area includes nickel and gold, as well as minor base metals. Sulphide nickel mineralisation in Western Australia typically occurs on basal contacts in ultramafic rocks, often in embayments and often in massive style.

Disseminated sulphides also occur in the ultramafics. Both styles of mineralisation have been located within the Lake Johnston area. In addition, massive and stringer nickel sulphide has been located in areas without associated ultramafic rocks or in areas with only narrow discontinuous ultramafic units.

This style of nickel mineralisation is thought to be related to the major deformation by remobilisation of sulphides during movement on the thrusts. Nickel mineralisation in the Lake Johnston area is typically pentlandite (nickel iron sulphide) in association with other sulphides such as pyrite (iron sulphide), pyrrhotite (iron sulphide) and chalcopyrite (copper-iron sulphide). In the supergene zone, violarite (a secondary nickel iron sulphide) occurs as replacement to pyrrhotite and pentlandite. The Emily Ann mineralisation is higher grade than that at Maggie Hays and has a higher proportion of pentlandite and violarite in the sulphides.

Exploration for gold mineralisation has been limited because of the isolation of the area, the deep weathering and soil cover, plus the focus on nickel exploration. The style of gold mineralisation is not well understood, but so far it has been found in association with a variety of rock types, including mafic and felsic volcanics, BIF and intrusive rocks.

Locally at Medcalf, the main mineralisation is vanadium and titanium at prospects named Vesuvius, Egmont and Fuji.

Structure

The Medcalf mafic sill is folded around a gently east plunging anticline. Schistosity strikes roughly east west in the tenement, with measured dips from 28° to 45° to the north in the western part of the tenement and 55° to 81° in the east.

The vanadium titanium rich zones with their accompanying high iron content have produced a layer resistant to erosion. The overlying gabbro and basalt have been stripped off, leaving a gently dipping back-slope on Vesuvius and Egmont. Dips of 50° to 100° are inferred over these areas.

DIRECTORS' REPORT

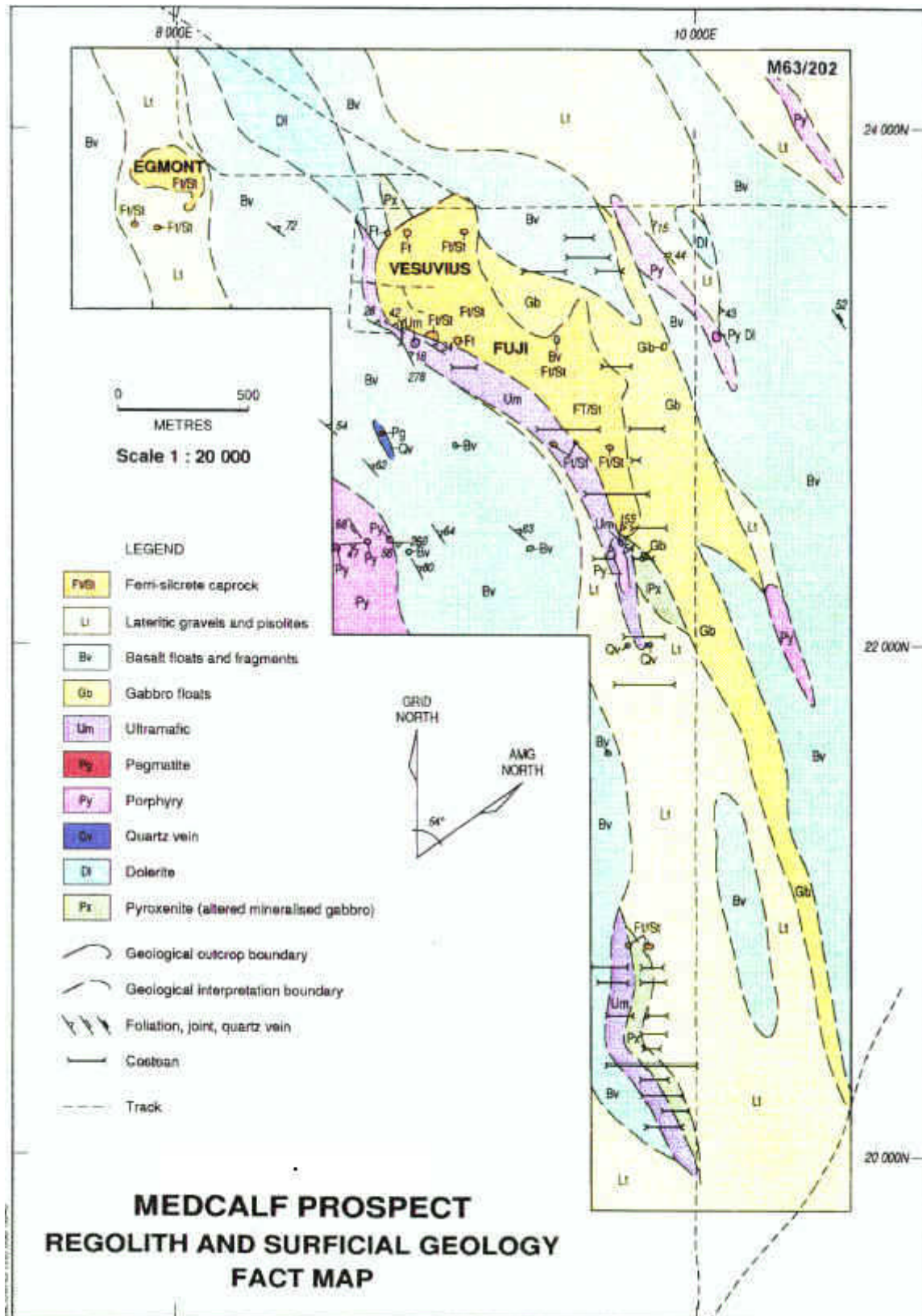


Figure 2: Medcalf Geological map

DIRECTORS' REPORT

Recent and current exploration work

Audalia have recognised the advances in technology with batteries. Recent scientific work has demonstrated that vanadium redox batteries may have a future market with their ability to have an almost unlimited capacity simply by using larger storage tanks, have a very fast response to changing loads and can be left completely discharged with no long term effects.

Due to the majority of previous exploration work was 30 years ago, Audalia completed a field reconnaissance program during January 2012. This program cross checked the geological mapping and the location of the historic drilling and compiled all the historical reports.

Audalia is about to embark on a metallurgical program that will review the economic viability of processing the vanadium and titanium commercially.

Gascoyne Base Metal Project

The Gascoyne project is located at 7,279,431 S and 370,092 E approximately 212km, bearing 82° from the township of Carnarvon (960km north of Perth), Western Australia.



Figure 3: Gascoyne Project location

DIRECTORS' REPORT

Regional geology

The Gascoyne Project lies within the Gascoyne Province which is the deformed and high-grade metamorphic core zone of the early Proterozoic Capricorn Orogen. The province consists of voluminous granitoid intrusions, mantled-gneiss domes, metamorphosed and partly melted sedimentary rocks, and remobilized Archaean basement gneiss. It lies between the Archaean Pilbara Block and Yilgarn Block and tectonic trends within the Gascoyne Province wrap around the margins of these relatively stable cratons.

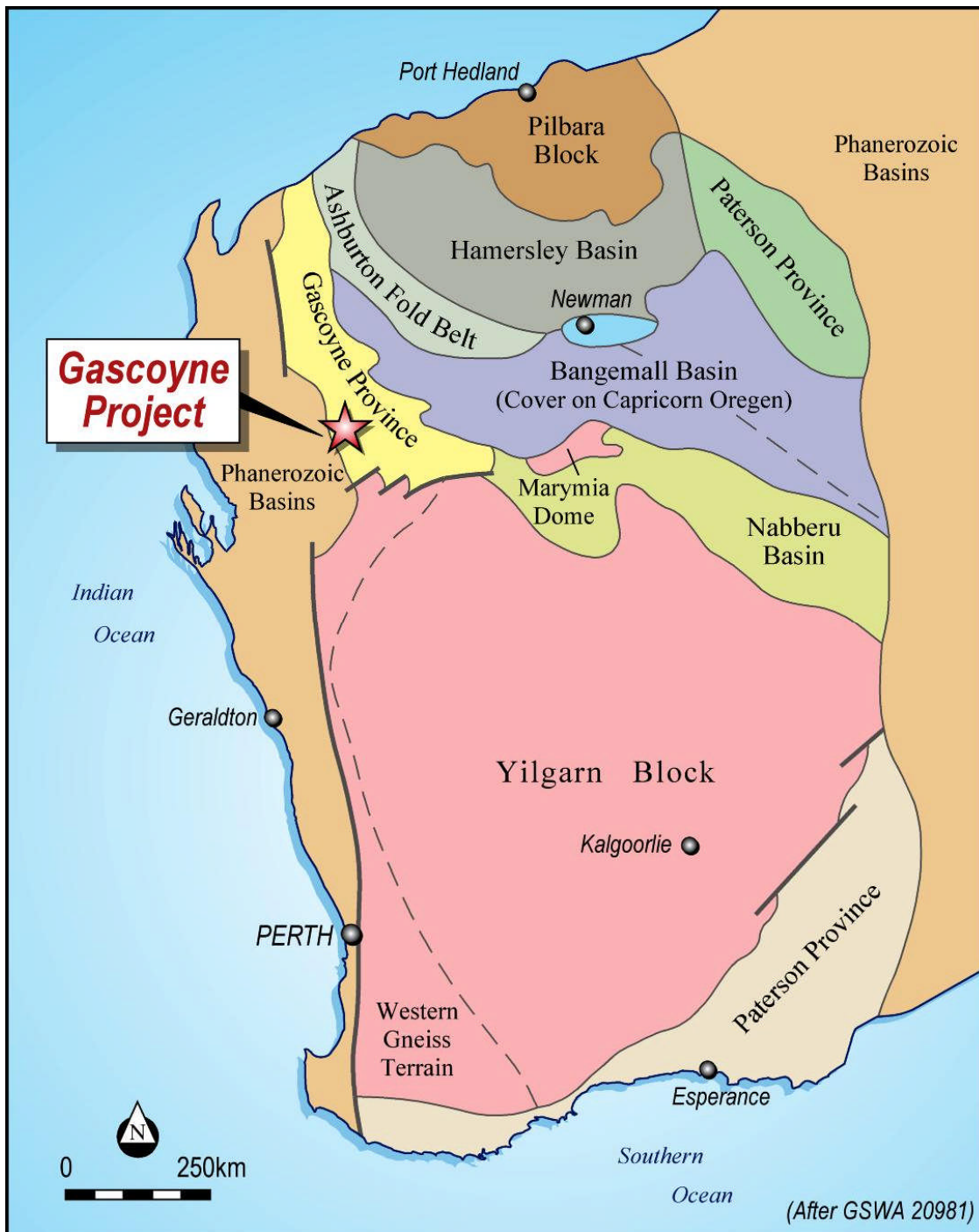


Figure 4: Gascoyne Project Regional Geology

A group of ensialic, geosynclinal shelf and trough sedimentary rocks named the Morrissey Metamorphic Suite extends throughout the Province and was probably deposited on Archaean continental crust. The Archean basement is extensively remobilised and this, together with repeated deformation and amphibolite-facies metamorphism of the Morrissey Metamorphic Suite, is largely attributed to the emplacement of mantled-gneiss domes and granitoid batholiths (Figure 4).

DIRECTORS' REPORT

The key aspects of the geology of the Gascoyne Province include the following aspects.

- There are three main zones of supracrustal rocks defined within the Gascoyne Province referred to as the Northern, Central and Southern zones.
- There are complex fold patterns with variable plunges; however there is a dominant west northwest grain to the country and widespread granite gneisses formed before or during the first episode of deformation
- The Morrissey Metamorphic Suite comprises a range of lithologies, including pelitic gneisses and schists, quartzo-feldspathic gneisses-schists, quartzite, meta-arkoses with lesser calc-silicate gneiss-granofels, marble, amphibolite, and minor BIF.
- Amphibolites occur mostly as narrow units concordant with gneissic banding. Overall they form a minor component of the Morrissey Metamorphic Suite. The only area with large bodies of amphibolite occurs between the Nardoo and Injinu Belts, where the amphibolite is intercalated with pelitic schist.
- Possible Broken Hill Type mineralisation source rocks such as meta-arkoses are widespread in the northern zone and the Gascoyne Province contains numerous epigenetic Ag-Pb-Zn occurrences.

Local geology

The Morrissey Metamorphic Suite within the Project area consists of four main units. The dominant unit is a quartz-microcline-oligoclase-biotite-muscovite paragneiss and schist (interpreted protolith is an arkose). This unit is widespread within the Mt Phillips 1:250,000 sheet area. Forming a subordinate unit is a quartz-biotite-muscovite-feldspar-garnet paragneiss-schist with intercalated quartzite and micaceous quartzite. A large oval body of migmatite and gneissic granodiorite occurs within the eastern portion of the Project area, which coincides with a distinctive magnetic ovoid.

A large area of Permian sediments (glacigene sandstone, siltstone and tillite) runs north-south across the western portions of the Project area. The thicknesses of these units are unknown. Pegmatite veins in this region tend to be quartz rich and are intimately associated with the northwest trending shears. Quartz veins or lenses occur as sinuous outcrops parallel to the regional strike or as en echelon sets almost orthogonal to the shear. The veins at Nardoo Hill Well are of the second type and are less than 100m in length and 1-8m in thickness.

There are no known base or precious metal occurrences within the project area.

Recent exploration work

Field work of rock chip sampling carried out during the reporting year was focussed on:

- the targets outlined from the previous aeromagnetic and geological interpretations, including, thumbprint magnetic anomalies.
- gossanous areas.

Rock Chip Sampling

A total of 31 rock chip samples were collected from the Audalia Gascoyne Project and submitted to Ultra Trace Laboratories, Perth. Samples were assayed for a suite of elements, which included, Gold (Au), Silver (Ag), Barium (Ba), Copper (Cu), Manganese (Mn), Molybdenum (Mo), Nickel (Ni), Lead (Pb) and Zinc (Zn). Samples were analysed with a minimum detection limited of 1 ppm.

<i>Ten ID</i>	<i>Status</i>	<i>Samples</i>
E09/1568	<i>Granted</i>	5
E09/1569	<i>Granted</i>	7
E09/1570	<i>Granted</i>	2
E09/1824	<i>Granted</i>	14
E09/1825	<i>Granted</i>	3

Table 1: Tenement rock chip samples register

DIRECTORS' REPORT

Analyses of the rock chip samples returned anomalous values of up to 240 ppm Cu, up to 202 ppm Zn and 138 ppm Pb. In addition pathfinder elements such Mo (24.3 ppm) and Ba (2550, 2880 ppm) have also returned have anomalous values. The table below lists peak anomalous results from the rock chip sampling program (Table 2). Full results are listed in Table 3.

Table of anomalous base metal and pathfinder results	
Sample ID	Values
11AUD00005	2030 ppm Ba
11AUD00014	2550 ppm Ba
11AUD00022	24.3 ppm Mo
11AUD00027	240 ppm Cu, 85ppm Pb, 242 ppm Zn
11AUD00032	150 ppm Cu, 125ppm Pb, 202 ppm Zn
11AUD00036	102 ppm Pb
11AUD00037	138 ppm Pb

Table 2: Summary of anomalous assay results

The rock chip sampling program of 31 samples and reconnaissance mapping completed during July 2011 on Audalia's Gascoyne project have returned encouraging anomalous base metal and pathfinder values that are worthy of follow up exploration work. Some of the anomalous base metal results are associated with gossanous outcrops identified by previously completed geology/regolith interpretation of aerial photography in conjunction with magnetometry.

The project area remains prospective to host a stratabound lead-zinc (copper) mineralisation of the Broken Hill type.

DIRECTORS' REPORT

Sample No	East	North	Au	Au (R)	Ag	Ba	Cu	Mn	Mo	Ni	Pb	Zn
11AUD00002	368798	7284918	-0.001		0.5	369	40	351	0.4	44	39	20
11AUD00003	368800	7284900	-0.001		-0.5	365	35	4200	0.5	74	18	128
11AUD00004	368790	7284853	-0.001		-0.5	866	10	333	0.7	10	62	56
11AUD00005	370678	7276958	-0.001		-0.5	2030	20	847	1.7	14	49	82
11AUD00006	377890	7282078	-0.001		-0.5	995	60	1890	0.4	150	11	146
11AUD00007	377931	7282088	-0.001		-0.5	430	-5	2900	0.6	36	7	118
11AUD00008	378609	7281919	-0.001		-0.5	346	40	1550	0.7	32	37	52
11AUD00009	378920	7281685	0.001		-0.5	51	10	229	3.1	14	4	22
11AUD00010	379446	7281194	-0.001		-0.5	269	-5	107	0.6	4	41	8
11AUD00011	378893	7281625	-0.001		-0.5	135	-5	100	0.7	6	6	14
11AUD00012	378001	7282067	-0.001		-0.5	2410	5	830	0.6	18	40	32
11AUD00014	376592	7286791	-0.001		-0.5	2550	10	1130	0.8	18	64	90
11AUD00015	376992	7286627	-0.001		-0.5	960	45	786	1.3	40	70	54
11AUD00020	377331	7283038	-0.001		-0.5	829	5	462	0.8	24	19	44
11AUD00021	371258	7280598	-0.001		-0.5	1260	-5	1020	0.7	14	39	36
11AUD00022	383552	7273819	-0.001		-0.5	358	90	1690	24.3	46	45	84
11AUD00023	370396	7282027	-0.001		-0.5	1340	-5	123	0.6	8	63	18
11AUD00024	370408	7282068	-0.001		-0.5	678	-5	45	0.3	6	126	12
11AUD00025	371164	7281357	-0.001		-0.5	48	35	1320	0.2	68	4	92
11AUD00026	384288	7274495	-0.001		-0.5	253	10	143	0.7	12	62	26
11AUD00027	384031	7274984	-0.001		-0.5	143	240	384	3.1	86	85	242
11AUD00028	379195	7280547	0.001		-0.5	308	60	139	0.5	28	21	16
11AUD00029	379188	7279307	-0.001		-0.5	353	20	376	1.9	14	29	32
11AUD00030	379186	7279262	-0.001		-0.5	423	15	301	0.4	56	25	40
11AUD00031	379389	7279154	-0.001		-0.5	356	55	142	3.7	30	107	40
11AUD00032	379604	7278746	0.019	0.018	-0.5	211	150	292	1	68	125	202
11AUD00033	379986	7278534	-0.001		-0.5	96	10	65	0.8	14	28	18
11AUD00034	379984	7278536	-0.001		-0.5	222	55	69	1.3	16	37	54
11AUD00035	379940	7278519	-0.001		-0.5	31	15	105	1	8	13	14
11AUD00036	378350	7279454	-0.001		-0.5	2880	-5	75	0.5	6	102	12
11AUD00037	378350	7279454	-0.001		-0.5	541	5	67	1	14	138	18

Table 3: Rock chip samples - assay results

Competent Person's Statement

The information in this Report that relates to Exploration results is based on information compiled by Mr Brent Butler who is a member of the Australasian Institute of Mining and Metallurgy (AusImm) since 1989. Mr Butler is also a member of the Prospectors and Developers Association of Canada (PDAC), a Fellow member of the Geological Society of America (SEG) and a Fellow member of the Geological Society of London (FGS). Mr Butler is a non-Executive Director of Audalia Resources Limited and Siburan Resources Limited, a Director of TSX listed Company Redhill Resources Corp and the President and CEO of TSX listed Company Superior Mining International Corp. Mr Butler has over 28 years' experience as a geologist from exploration to mining and running international public Companies.

Mr Butler has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity for which he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the Australasian Code for Reporting of Exploration results, Mineral Resources and Ore Reserves. Mr Butler consents to the inclusion in the report of the matters based on his information in the form and context in which it is used.

DIRECTORS' REPORT

RESULTS

The Company incurred a loss of \$290,498 after income tax for the half-year (2010: \$27,012).

EVENTS SUBSEQUENT TO REPORTING DATE

Other than the matters described in Note 14 to these financial statements, there has not arisen in the interval between the end of the half-year 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.

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, BDO Audit (WA) Pty Ltd, to provide the directors of the Company with an Independence Declaration in relation to the review of the interim financial report. This Independence Declaration is set out on page 12 and forms part of this directors' report for the half-year ended 31 December 2011.

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

A handwritten signature in black ink, appearing to be "D. Lim", written over a vertical line.

Dato Soo Kok Lim
Executive Chairman

Dated at Perth, Western Australia this 15th day of March 2012.

15 March 2012

The Board of Directors
Audalia Resources Limited
79 Broadway
Nedlands WA 6009

Dear Sirs,

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

As lead auditor for the review of Audalia Resources Limited for the half-year ended 31 December 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 review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

BDO


Chris Burton
Director

BDO Audit (WA) Pty Ltd
Perth, Western Australia

STATEMENT OF COMPREHENSIVE INCOME
for the half-year ended 31 December 2011

	31 Dec 2011 \$	For the period 27 Aug to 31 Dec 2010 \$
Revenue from continuing operations		
Income	50,422	2,949
Operational expenses	(200,000)	(4,789)
Corporate and administrative expenses	(140,920)	(25,172)
Loss before income tax	(290,498)	(27,012)
Income tax	-	-
Net loss for the period	(290,498)	(27,012)
Other comprehensive income	-	-
Total comprehensive loss for the period attributable to the owners of Audalia Resources Limited	(290,498)	(27,012)
Basic loss per share (cents)	(0.36)	(0.05)

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 31 December 2011

	Note	31 Dec 2011 \$	30 Jun 2011 \$
CURRENT ASSETS			
Cash and cash equivalents		109,767	2,361,588
Trade and other receivables		45,710	29,471
Other investments	10	1,764,695	-
Other current assets		1,052	-
Total Current Assets		1,921,224	2,391,059
NON CURRENT ASSETS			
Other receivables		6,313	-
Other assets		2,966	1,979
Exploration and evaluation assets	11	462,165	251,511
Total Non Current Assets		471,444	253,490
TOTAL ASSETS		2,392,668	2,644,549
CURRENT LIABILITIES			
Trade and other payables		167,844	113,667
Provisions		1,726	-
Total Current Liabilities		169,570	113,667
TOTAL LIABILITIES		169,570	113,667
NET ASSETS		2,223,098	2,530,882
EQUITY			
Contributed equity		2,601,302	2,618,588
Reserves		10,000	10,000
Accumulated losses		(388,204)	(97,706)
TOTAL EQUITY		2,223,098	2,530,882

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

STATEMENT OF CHANGES IN EQUITY
for the half-year ended 31 December 2011

	Contributed Equity \$	Reserves \$	Accumulated Losses \$	Total \$
Balance as at 30 June 2011	2,618,588	10,000	(97,706)	2,530,882
Loss for the period	-	-	(290,498)	(290,498)
Total comprehensive loss for the period	-	-	(290,498)	(290,498)
<i>Transactions with equity holders in their capacity as equity holders:</i>				
Shares issued	-	-	-	-
Transaction costs on share issues	(17,286)	-	-	(17,286)
Share-based payment	-	-	-	-
Balance as at 31 December 2011	2,601,302	10,000	(388,204)	2,223,098
Balance as at 27 August 2010	-	-	-	-
Loss for the period	-	-	(27,012)	(27,012)
Total comprehensive loss for the period	-	-	(27,012)	(27,012)
<i>Transactions with equity holders in their capacity as equity holders:</i>				
Shares issued	305,500	-	-	305,500
Transaction costs on share issues	-	-	-	-
Share-based payment	-	-	-	-
Balance as at 31 December 2010	305,500	-	(27,012)	278,488

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

STATEMENT OF CASH FLOWS
for the half-year ended 31 December 2011

	31 Dec 2011 \$	For the period 27 Aug to 31 Dec 2010 \$
Cash flows used in operating activities		
Payments to suppliers and employees	(225,579)	(21,956)
Payments for exploration and evaluation expenses	-	(4,789)
Interest received	23,430	2,949
Net cash used in operating activities	<u>(202,149)</u>	<u>(23,796)</u>
Cash flows used in investing activities		
Payments for exploration and evaluation assets – acquisition costs	(159,202)	(100,000)
Payments for exploration and evaluation assets – capitalised costs	(41,106)	(1,630)
Payments for held to maturity investments	(1,764,695)	
Net cash used in investing activities	<u>(1,965,003)</u>	<u>(101,630)</u>
Cash flows from financing activities		
Net proceeds from the issue of shares	(84,669)	298,460
Net cash provided by/(used in) financing activities	<u>(84,669)</u>	<u>298,460</u>
Net increase/(decrease) in cash held	(2,251,821)	173,034
Cash and cash equivalents at the beginning of the period	2,361,588	-
Cash and cash equivalents at the end of the period	<u><u>109,767</u></u>	<u><u>173,034</u></u>

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

CONDENSED NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

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

The annual financial report of the Company as at and for the year ended 30 June 2011 is available upon request from the Company's registered office or may be viewed on the Company's website, www.audalia.com.au.

2. STATEMENT OF COMPLIANCE

The interim financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable accounting standards including AASB 134 'Interim Financial Reporting', Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). The interim financial report also complies with the International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board.

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

It is recommended that this interim financial report be read in conjunction with the annual financial report for the year ended 30 June 2011 and considered together with any public announcements made by Audalia Resources Limited during the half-year ended 31 December 2011 in accordance with the continuous disclosure requirements arising under the Corporations Act 2001 and the ASX Listing Rules.

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

3. BASIS OF PREPARATION

This interim financial report has been prepared on the accruals basis and the historical cost basis modified, where applicable, by the measurement at fair value of selected non current assets, financial assets and financial liabilities. All amounts are presented in Australian dollars, unless otherwise noted.

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

Going concern

The interim financial report has been prepared on a going concern basis which assumes realising its assets and extinguishing its liabilities in the normal course of business. At 31 December 2011, the Company had net assets of \$2,223,098 (30 June 2011: \$2,530,882) and continues to incur expenditure on its exploration tenements drawing on its cash balances. As at 31 December 2011, the Company had \$109,767 (30 June 2011: \$2,361,588) in cash and cash equivalents.

Based upon the Company's existing cash resources, the ability to modify expenditure outlays if required, and the directors' confidence of sourcing additional funds, the directors consider there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and therefore the going concern basis of preparation to be appropriate for the preparation of the Company's interim financial report.

In the event that the Company is not able to continue as a going concern, it may be required to realise assets and extinguish liabilities other than in the normal course of business and at amounts different to those stated in its financial report.

4. SIGNIFICANT ACCOUNTING POLICIES

In the half-year ended 31 December 2011, the Company has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2011.

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

CONDENSED NOTES TO THE FINANCIAL STATEMENTS

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The Company has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2011. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Company accounting policies.

5. ESTIMATES

The preparation of the half-yearly financial statements require management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these half-yearly financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial report as at and for the year ended 30 June 2011.

6. COMPARATIVE FIGURES

The Company was incorporated on 27 August 2010 and accordingly the comparative statement of comprehensive income, statement of cash flows, and statement of changes in equity are for the period from 27 August 2010 to 31 December 2010.

7. FINANCIAL RISK MANAGEMENT

The Company's financial risk management objectives and policies are consistent with that disclosed in the financial statements as at and for the year ended 30 June 2011.

8. EXPENSES

Employee benefits expense included in statement of comprehensive income

Wages and salaries
Superannuation expense

31 Dec 2011 \$	31 Dec 2010 \$
35,830	-
2,139	-
37,969	-

CONDENSED NOTES TO THE FINANCIAL STATEMENTS

9. SEGMENT REPORTING

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

	Mineral Exploration \$	Corporate and administrative \$	Company \$
Half-year ended 31 December 2011			
Segment revenue	-	50,422	50,422
Segment result	(200,000)	(90,498)	(290,498)
As at 31 December 2011			
Segment assets	465,131	1,927,537	2,392,668
Segment liabilities	(18,467)	(151,103)	(169,570)
Period ended 31 December 2010			
Segment revenue	-	2,949	2,949
Segment result	(4,789)	(22,223)	(27,012)
As at 31 December 2010			
Segment assets	101,631	187,263	288,894
Segment liabilities	-	10,405	10,405

10. OTHER INVESTMENTS

Current

Held to maturity investments

31 Dec 2011
\$

1,764,695

30 Jun 2011
\$

-

Held to maturity investments consist of term deposits.

11. EXPLORATION AND EVALUATION ASSETS

Exploration, evaluation and development costs carried forward in respect of areas of interest

462,165

251,511

Reconciliation

Carrying amount at beginning of period

251,511

-

Exploration and evaluation expenditure

51,452

1,511

Acquisition of Gascoyne tenements

9,202

250,000

Acquisition of Medcalf tenements

150,000

-

Carrying amount at end of period

462,165

251,511

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.

CONDENSED NOTES TO THE FINANCIAL STATEMENTS

12. COMMITMENTS AND CONTINGENCIES

The changes to the commitments and contingencies disclosed in the most recent annual report are specified below. Other than the changes mentioned, all other commitments and contingencies remain consistent with those disclosed in the 2011 annual report.

Operating lease commitments

The Company has entered into a commercial lease on its office in East Perth, Western Australia. The lease is for a 24-month period from 15 October 2011.

Future minimum rentals payable under the non-cancellable operating lease as at 31 December are as follows:

	31 Dec 2011 \$	31 Dec 2010 \$
Within one year	25,721	-
After one year but not more than five years	23,310	-
	49,031	-

Exploration commitments

The Company has certain obligations to perform minimum exploration work on mineral leases 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 balance date, total exploration expenditure commitments of the Company which have not been provided for in the financial statements amount up to \$100,000 per annum.

Contingencies

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

13. RELATED PARTY TRANSACTIONS

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 half year. 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 for the period ended		Balance outstanding as at	
		31 December 2011 \$	30 June 2011 \$	31 December 2011 \$	30 June 2011 \$
Mr B Butler	Geological Consulting fees ¹	46,687	-	16,728	-
	Geological Consulting fees ²	6,000	-	-	-
Ms K Logan	Company secretarial fees ³	24,000	19,369	4,000	7,450
	Accounting fees ⁴	12,000	12,625	2,000	4,031
	Consultancy fees ⁵	11,400	67,550	-	32,492

Notes in relation to the table of related party transactions

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

CONDENSED NOTES TO THE FINANCIAL STATEMENTS

13. RELATED PARTY TRANSACTIONS (cont'd)

3. A company associated with 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.
4. A company associated with 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.
5. A company associated with Ms Logan, Townshend York Pty Ltd, provided consultancy services in connection with preparation of the Company's annual report. Terms for such services were based on market rates, and amounts were payable on a monthly basis.

14. EVENTS SUBSEQUENT TO REPORTING DATE

There are no events subsequent to balance date that would have a material financial effect on the financial statements for the half-year ended 31 December 2011.

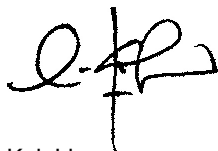
DIRECTORS' DECLARATION

In the opinion of the directors of Audalia Resources Limited:

- (a) the financial statements and notes set out on pages 13 to 21 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standards AASB 134 'Interim Financial Reporting' and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (iii) the half year financial statements are in compliance with International Financial Reporting Standards, as stated in Note 2 to the financial statements; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Perth, Western Australia this 15th day of March 2012.

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to be "Soo Kok Lim", written over a horizontal line.

Soo Kok Lim
Executive Chairman

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Audalia Resources Limited, which comprises the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the disclosing entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Audalia Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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



Conclusion

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

- (a) giving a true and fair view of the disclosing entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

BDO Audit (WA) Pty Ltd

BDO


Chris Burton
Director

Perth, Western Australia
Dated this 15th day of March 2012