audalia resources limited

ACN 146 035 690

INTERIM FINANCIAL REPORT

For the six months ended 31 December 2016

Contents

The Directors present the interim financial report of Audalia Resources Limited (the **Company or Audalia**) for the half-year ended 31 December 2016 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.

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

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

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

PRINCIPAL ACTIVITIES

During the year, the principal continuing activities of the Company was exploration of its two assets, Medcalf and Gascoyne in WA.

REVIEW OF ACTIVITIES

Audalia Resources Limited (ASX: **ACP**) is pleased to present its interim financial report for the six months ended 31 December 2016 to shareholders and provide some insight into the advancement the Company has made in its activities to date and progress that it expects to make in the next six months.

OVERVIEW

MEDCALF PROJECT

The Medcalf vanadium - titanium Project is located 470km east-southeast of Perth near Lake Johnston. The Medcalf Project comprises two granted Exploration Licences E63/1133 and E63/1134 as well as Mining Lease M63/656. Together these licences cover a total area of 24 km^2.

The Medcalf Project lies in the southern end of the Archaean Lake Johnston greenstone belt. This greenstone belt is a narrow, north-northwest trending belt approximately 110km 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 (see Figure 1).

Previous work carried out by numerous holders of the tenements over the last 40 years includes exploration for nickel, titanium/vanadium, platinum group metals (PGM) and gold. The primary vandiferous titanomagnetite mineralisation occurs within the pyroxenite zone between the basal peridotite and upper gabbro zones of the sill. The lateritic weathering of this sill has removed much of the silica, calcium and magnesium in solution thus resulting in residual concentrations of iron, titanium and vanadium oxides. This secondary enrichment potentially hosts economic ore.

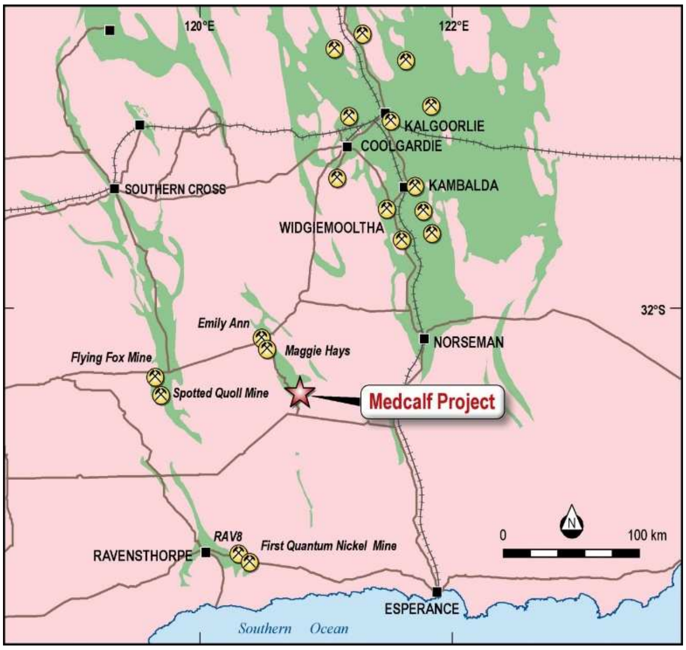

Figure 1: Medcalf Project location map

Activities conducted during the half year

Interim metallurgical testwork programme.

Audalia continued its work on the interim metallurgical testwork programme during the half year. The Company delivered additional core samples provided from the November 2015 drill programme to its independent overseas consultant.

MEDCALF PROJECT (CONTINUED)

Activities conducted during the half year (continued)

Interim metallurgical testwork programme (continued).

These samples were used to optimise the flow sheet, examine alternative process options and increase the confidence of the key assumptions used in the prefeasibility study completed in the March 2016 quarter.

Audalia also engaged local consultant, Nagrom, during the half year to assist with further refinement of the beneficiation process. Audalia delivered additional core from the November 2015 PQ drilling programme to Nagrom's laboratory in Kelmscott in December 2016.

Audalia expects the testwork programmes to conclude in the March 2017 quarter following which the Company will deliver concentrate samples from the beneficiation process to the overseas consultant to complete downstream metallurgical testwork to further optimise the product recovery and grade.

Results from the drill core programme

Analytical laboratory, Intertek, completed assays on the PQ core from the November 2015 drill programme during the half-year with the results released to ASX on 13 October 2016. The results show a strong consistency of vanadium and titanium in every drill hole from surface to the end of hole throughout all prospects which provides further supports the Company's previously reported resource statement.

Definitive feasibility study

This period also marked the commencement of the Company's planning process for its definitive feasibility study (**DFS**). As the interim metallurgical testwork described above nears completion and the Company continues to advance other priority actions in its work plan, the planning process has begun with the DFS on schedule to commence in calendar year 2017.

Proposed infill drill programme

Leading in to the DFS, Audalia also commenced planning during the half-year for a drill programme to upgrade the existing Mineral Resource to an Ore Reserve estimate at the Medcalf Project. The drill programme is proposed to be conducted during the 2017 calendar year.

GASCOYNE PROJECT

The Gascoyne Project comprises 100% owned tenements covering 537km^2 that are highly prospective for Lead (Pb), Zinc (Zn) and Copper (Cu) deposits, located in the Gascoyne Region, Western Australia. It is located approximately 250km to the east of Carnarvon and 830km north from Perth (see Figure 2).

The Gascoyne Project covers an area of mid-Proterozoic aged, metamorphosed sediments and volcanic rocks which have been subjected to several phases of tectonic deformation and intruded by granitoids. Exploration work and drilling to date has used the geological model of base metal mineralisation being associated with coincident soil geochem and "thumbprint" magnetic anomalies. Historical RC drill testing from one of these targets has returned significant intercepts of 2.3% Pb and 0.9% Cu. Lead sulphide (galena) and copper sulphides (chalcopyrite) were identified in the drill chips.

Audalia is targeting a Broken Hill Sedimentary Exhalative (SEDEX) massive sulphide style lead (Pb), zinc (Zn) and silver (Ag) deposit.

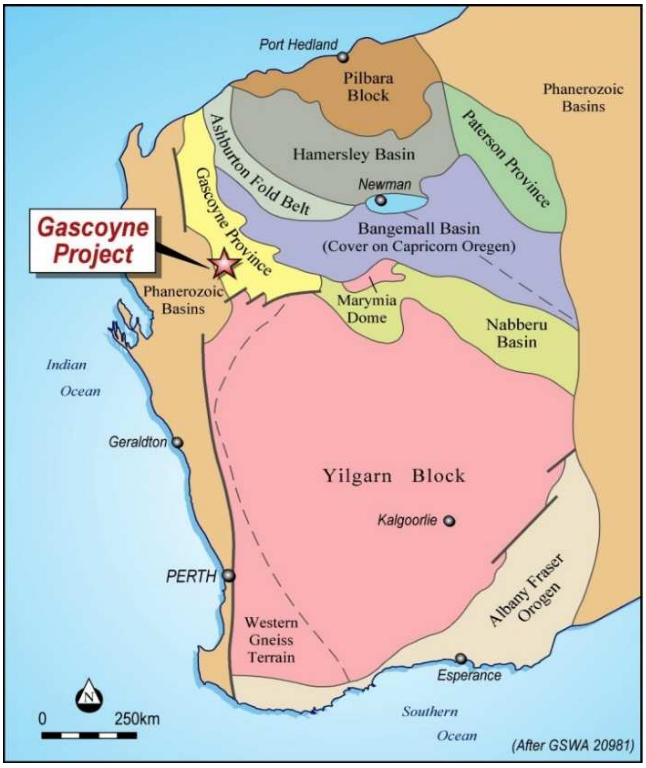

Figure 2: Gascoyne Project - Location Map

Activities conducted during the half year

Rock chip sampling programme

The Company's consultant geologist completed a rock chip sampling programme on exploration licences E09/2102 and E09/1825 at the Gascoyne Project during the half-year. The sampling focused on previously untested areas focussing on Banded Iron gravels within dry river beds with the primarily purpose of identifying manganese, a key indicator for a Broken Hill BIF mineralisation of lead, zinc and silver. The analysis of the samples collected was released to ASX on 13 October 2016 and reported two samples returning positive mineralisation.

Electromagnetic survey

During the half year, the Company engaged the services of GPX Surveys in Belmont to carry out a helicopter airborne Electromagnetic magnetic (**EM**) survey over the prospective BIF in order to locate massive sulphides within the folds of the BIF. The survey covers 942.4 line kilometres at 200m spacing's in a north south direction with an additional 96.4 line kilometres which are tie lines flown in an east west direction. Audalia secured an XTEM helicopter time domain electromagnetic system to undertake the work.

The programme completed subsequent to balance date and the data collected will be analysed by a geophysicist to interpret and identify possible drill targets.

CORPORATE

The Company completed a one-for-one entitlement issue to shareholders during the half-year which was well received by shareholders with the Company raising $1.433 million (before costs).

The Company received an Australian Government R&D tax rebate of approximately $1.12 million for the year ended 30 June 2016 which will be used to advance exploration and evaluation activities at the Company's Medcalf and Gascoyne Projects and to supplement the Company's existing cash reserves.

During the half-year, the Company received applications for forfeiture of tenements that were lodged by Serena Minerals Pty Ltd (**Serena Minerals**) in relation to certain tenements comprising the Gascoyne Project and owned by Audalia, exploration licences E09/1568, E09/1569, E09/1570, E09/1824 and E09/1825. Audalia was in negotiations with Serena Minerals in respect of a potential farm in and joint venture arrangement in respect of the Gascoyne Project during the half-year and those negotiations were the subject of a confidentiality agreement.

The Company intends to vigorously defend these applications but the applications do not prevent the Company from continuing its planned exploration activities at the Gascoyne Project.

The Company also continues to actively review and assess other projects in the resource sector, both in Australia and overseas, by way of acquisition or investment/joint venture.

Competent Person's Statement

The information in this report relates to the Exploration Results is based on information compiled by Mr Brent Butler, who is a Fellow of The Australasian Institute of Mining and Metallurgy. Mr Butler has 33 years' experience as a geologist and is CEO and Executive Director of Audalia. Mr Butler has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (JORC Code). Mr Butler has provided his consent to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Results

The Company incurred a loss of $581,895 after income tax for the half-year (2015: loss $396,796) after increases in funding costs (interest expense) and the recognition of a taxation balance which is due to a significant reduction in losses as a result of receipt of the R&D tax incentive.

EVENTS SUBSEQUENT TO REPORTING DATE

There have been no significant events after the end of the reporting period to the date of this report.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, BDO Audit (WA) Pty Ltd, to provide the directors of the Company with an Independence Declaration in relation to the review of the interim financial report. This Independence Declaration is set out on page 6 and forms part of this directors' report for the half-year ended 31 December 2016.

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

Brent Butler

Executive Director and CEO

Dated at Perth, Western Australia this 16th day of March 2017.

AUDITOR'S INDEPENDENCE DECLARATION

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
(INCOME STATEMENT)
HALF YEAR ENDED 31 DECEMBER 2016

	Notes	December 2016 $	December 2015 $
Revenue from continuing operations			
Revenue	C.1	2,480	24,954
Expenses			
Financing costs (interest expense)		(178,095)	(129,067)
Impairment of exploration expenditure		-	
Corporate and administration expenses	C.2	(265,354)	(292,683)
Profit / (loss) before income tax expense		(440,969)	(396,796)
Income tax (expense) / benefit	C.3	(140,926)	-
Net profit / (loss) for the half year		(581,895)	(396,796)
Other comprehensive income			
Items that may be realised through profit and loss		-	-
Items that may not be realised through profit and loss		-	-
Other comprehensive income for the half year net of tax		-	-
Total comprehensive income for the half year, net of tax			
Owners of Audalia Resources Limited		(581,895)	(396,796)
Loss per share attributed to the owners of the Company			
Basic loss per share – (accounting loss / number of shares)		$(0.0018)	$(0.0017)
Calculation of loss per share			
Loss for the half year		(581,895)	(396,796)
Number of shares at the beginning of the period	B.2	240,660,001	234,160,001
Shares issued but adjusted (pro-rata) for the period of issue		73,985,088	614,130
Number of shares used to calculate the loss per share for the half year		314,645,089	234,774,131

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

STATEMENT OF FINANCIAL POSITION
(BALANCE SHEET)
AS AT 31 DECEMBER 2016

	Notes	December 2016 $	June 2016 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	B.1	2,620,279	882,660
Trade and other receivables	D.1	57,324	41,997
Other assets	D.2	19,666	11,335
Total current assets		2,697,269	935,992
NON-CURRENT ASSETS			
Plant and equipment	A.3	27,146	33,471
Exploration and evaluation expenditure	A.1	7,410,317	7,907,786
Total non-current assets		7,437,463	7,941,257
TOTAL ASSETS		10,134,732	8,877,249
LIABLITIES			
CURRENT LIABILITIES			
Trade and other payables	D.4	692,328	888,236
Employee benefits obligations	D.5	75,468	70,774
Borrowings	B.3	-	3,625,000
Total current liabilities		767,796	4,584,009
NON-CURRENT LIABILITIES			
Employee benefits obligations	D.5	6,240	9,330
Other payables	D.4	498,533	-
Borrowings	B.3	3,625,000	-
Deferred tax liabilities	C.3	140,926	-
Total non-current liabilities		4,270,699	9,330
TOTAL LIABILITIES		5,038,495	4,593,339
NET ASSETS		**5,096,237**	**4,283,910**
EQUITY			
Issued capital	B.2	8,442,457	7,048,235
Reserves	B.5	10,000	10,000
Accumulated losses	B.6	(3,356,220)	(2,774,325)
TOTAL EQUITY		**5,096,237**	**4,283,910**

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

STATEMENT OF CASH FLOWS
(HOW CASH IS RECEIVED AND SPENT)
HALF YEAR ENDED 31 DECEMBER 2016

	Notes	December 2016 $	December 2015 $
Cash flows from operating activities			
Payments to suppliers and employees		(242,868)	(451,900)
Interest paid		-	(135)
interest received		2,630	23,629
Net cash outflows from operating activities		(240,238)	(428,406)
Cash flows from investing activities			
Payments for exploration expenditure		(537,571)	(1,961,910)
Proceeds from R&D incentives for exploration and evaluation		1,121,206	395,259
Net cash inflows/(outflows) from investing activities		583,635	(1,566,651)
Cash flows from financing activities			
Proceeds from issue of shares		1,432,971	-
Payment of share issue costs		(38,749)	-
Proceeds from borrowings (loans)		-	625,000
Net cash inflows from financing activities		1,394,222	625,000
Net increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period		882,660	2660,781
Net movement in cash flows for the period		1,737,619	(1,370,057)
Cash and cash equivalents at end of half year	B.1	2,620,279	1,290,724

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

Loss for the period	(581,895)	(396,796)
Add back – non-cash items		
Depreciation	2,231	2,039
Changes in the value of assets and liabilities used in the day to day operations of the business		
Change in value (from opening to closing amounts) of trade and other receivables (received)/owed	(15,327)	(186,186)
Change in value (from opening to closing amounts) of other assets	(8,332)	(8,704)
Change in value (from opening to closing amounts) of trade and other payables (paid)/owing	220,555	151,764
Change in value (from opening to closing amounts) of employee entitlements (paid)/owing	1,604	9,477
Change in value (from opening to closing amounts) of deferred tax liabilities (paid)/owing	140,926	-
Net cash paid for corporate administration costs during the period	(240,238)	(428,406)

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

STATEMENT OF CHANGES IN EQUITY
HALF YEAR ENDED 31 DECEMBER 2016

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

RESTATED

	Issued capital $	Accumulated losses $	Reserve $	Total equity $
Balance at 1 July 2015	5,585,735	(2,205,133)	279,317	3,659,919
Prior period adjustment (note 1)	-	269,317	-	269,317
Loss for the half year	-	(396,796)	-	(396,796)
Total comprehensive income/(loss) for the half year	-	(396,796)	-	(396,796)
Transactions with Shareholders in their capacity as shareholders				
Issue of shares (consultants and CEO)	1,012,500	-	(150,652)	861,848
Share based payments (CEO)	-	-	248,365	248,365
Balance at 31 Dec 2015	6,598,235	(2,332,612)	377,030	4,642,653

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

Table of Notes

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Audalia Resources Limited (the **Company**) is a company domiciled in Australia. Audalia Resources Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX). The interim report for six months ended 31 December 2016 were authorised for issue in accordance with a resolution of directors on 16 March 2017.

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

(a) Basis of preparation

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

(i) Statement of compliance

This interim financial report for the half-year reporting period ended 31 December 2016 has been prepared in accordance with accounting standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

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

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

(ii) Basis of measurement and reporting convention

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

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

(b) Prior period adjustment – share based payments

The Company's accounting policy for share based payments for the year ended 30 June 2015 included the requirement to expense the recognised cost of the transactions in the statement of profit or loss and other comprehensive income. The Company reassessed this policy on 1 July 2015 given the nature of the underlying transactions relate directly to the development of the exploration and evaluation expenditure, namely the grant of a mining lease and the completion of a pre-feasibility study. The share based payment expense for the year ended 30 June 2015 that related to the CEO's right to shares upon achieving these milestones has been retrospectively transferred to the carrying value of the exploration asset in accordance with the Company's accounting policies and removed from accumulated losses as at 30 June 2015. The impact of this adjustment has been disclosed in the comparative accumulated losses within the statement of changes in equity above.

(c) Segment reporting

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

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

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the impact of new or amended standards which became applicable for the current reporting period. The accounting standard for presentation and disclosure of the financial statements, AASB 101 *Presentation of Financial Statements*, has been updated to allow companies to reorganise the interim financial report and place items that are considered to be more relevant to stakeholders in a more prominent location within the report. The Company has adopted the changes to the standard and has re-arranged its interim financial statements to take advantage of the changes.

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

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

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

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

CONDENSED NOTES TO THE INTERIM FINANCIAL REPORT
HALF YEAR ENDED 31 DECEMBER 2016

A Significant assets

	December 2016 $	June 2016 $
A.1 Exploration and evaluation assets		
Exploration, evaluation and development costs carried forward in respect of areas of interest	7,410,317	7,907,786
Reconciliation – Medcalf		
Carrying amount at the beginning of the period	6,799,954	3,462,174
Prior period adjustment (refer note 1(b))	-	269,317
Additions to the exploration and evaluation asset	409,132	4,063,816
Less: R&D tax incentive received	(1,121,206)	(995,353)
Carrying amount at end of the period	6,087,880	6,799,954
Reconciliation – Gascoyne		
Carrying amount at the beginning of the period	1,107,832	981,826
Additions to the exploration and evaluation asset	214,605	126,006
Carrying amount at end of the period	1,322,437	1,107,832

Estimates and judgements

Assumptions used to carry forward the exploration assets

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

Non-cash items

The Company issued a total of 6,500,000 shares during the 30 June 2016 period which resulted in a non-cash movement of $1,193,183 in the carrying value of the asset. Refer note B.2 and B.6 for details.

	December 2016 $	June 2016 $
A.2 Exploration Commitments		
Within one year	426,434	290,947
After one year but not more than five years	2,052,800	1,461,300
Over five years	2,570,475	2,592,800
	5,049,709	4,345,047

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

CONDENSED NOTES TO THE INTERIM FINANCIAL REPORT
HALF YEAR ENDED 31 DECEMBER 2016

A Significant assets

	December 2016 $	June 2016 $
A.3 Operating assets – Plant and Equipment		
Operating assets – Plant and Equipment	23,810	23,810
Accumulated depreciation	(14,735)	(10,892)
	9,075	12,918
Site equipment	5,000	5,000
Accumulated depreciation	(750)	(500)
	4,250	4,500
Total operating assets	13,325	17,418
Total administration assets (refer note D.3)	13,821	16,052
Total plant and equipment balance	27,146	33,471

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

	Site Equipment $	Office Equipment $	Total $
Opening net book value at 1 July 2016	12,918	4,500	17,418
Additions during the half year	-	-	-
Depreciation expense	(3,843)	(250)	(4,093)
Closing net book value at 31 Dec 2016	9,075	4,250	13,325

B Financing – Capital, debt and risk management

	December 2016 $	June 2016 $
B.1 Cash		
Cash at bank and in hand	2,604,483	867,181
Term deposit	15,796	15,479
Cash as per cash flow statement	2,620,279	882,660

	December 2016 $	June 2016 $
Credit risk (1)		
A-1+	2,620,256	882,460

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.

B Financing – Capital, debt and risk management

B.1 Cash

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

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

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

	December 2016 Number	June 2016 Number	December 2016 $	June 2016 $
Balance at the beginning of the year	240,660,001	234,160,001	7,048,235	5,585,735
Shares issue to consultants (23/11/15) 1	-	2,500,000	-	562,500
Shares issued to CEO Tranche 1 shares (24/12/15) 1	-	2,000,000	-	450,000
Shares issued to CEO Tranche 1 shares (30/03/16) 1	-	2,000,000	-	450,000
Entitlement issue at $0.01 (28/09/16)	143,297,433	-	1,432,971	
Share issue costs			(38,749)	
Balance as at end of the period	383,957,434	240,660,001	8,442,457	7,048,235

1. These shares were issued after the CEO and a consultant satisfied the conditions within their respective contracts to receive the shares.

B.3 Borrowings (loans)

	December 2016 $	June 2016 $
Current	-	3,625,000
Borrowings – (payable within one year)	-	3,625,000
Non-current	3,625,000	-
Borrowings – (payable after one year)	3,625,000	-
Reconciliation of movements in the balance		
Opening balance	3,625,000	3,000,000
Amounts drawn down	-	625,000
Amounts repaid	-	-
Closing balance at end of period	3,625,000	3,625,000
Facility		
- Amount used	3,625,000	3,625,000
- Amount unused	375,000	375,000
Total Facility	4,000,000	4,000,000

Terms of the borrowings

The key terms of the loans are listed below:
1. The interest rate is 8% compounded daily and payable at the end of the term of the loans;
2. The loans are due to be repaid on 18 November 2018 (together with the interest);
3. The loans are unsecured and are not subject to any covenants; and
4. The loans are with private investors.

B Financing – Capital, debt and risk management

B.3 Borrowings (loans) (continued)

Repayment profile (in years) – (Liquidity)

	Carrying Amount $	Contractual Cash flows $	Less than 1 year $	Between 2 and 5 yrs $
31 December 2016				
Interest	498,533	1,274,232	-	1,274,232
Borrowings	3,625,000	3,625,000	-	3,625,000
	4,123,533	4,899,232	-	4,899,232
30 June 2016				
Interest [1]	320,438	528,602	528,602	-
Borrowings [1]	3,625,000	3,625,000	3,625,000	-
	3,945,438	4,153,602	4,153,602	-

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

B.4 Risk management

General

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

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

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

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

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

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

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

B Financing – Capital, debt and risk management

B.4 Risk management

Credit - (the ability of the Company to manage the risk that third parties which hold assets on behalf of the company will not return them at the value recorded in the financial statements)

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

B.5 Reserves

	December 2016 $	June 2016 $
Options premium reserve	10,000	10,000
Share based payments reserves	-	-
	10,000	10,000

Option premium reserve

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

Share based payments reserves

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

The value attributable to the shares issued to employees and consultants is determined based on valuation technique applicable to the type of contractual relationship the Company has with the recipient. In the case of shares issued, the value attributable is the market price at a pre-determined date being the "grant date" as defined in the accounting standard. The terms and conditions of the different types of contracts have been included in the most recent annual report.

B.6 Accumulated losses

	December 2016 $	June 2016 $
Accumulated losses at the beginning of the year	2,774,325	2,205,133
Net loss for the period	581,895	838,509
Prior period adjustment (refer to note 1(b))	-	(269,317)
	3,356,220	2,774,325

B.7 Leases

	December 2016 $	June 2016 $
Within one year	9,666	63,667
After one year but not more than five years	-	-
	9,666	63,667

The Company entered into a commercial lease on its office in West Perth, Western Australia. The lease was for a 36-month period from 3 February 2014. On 25 January 2016, the Company entered into a commercial lease for a six-month period for its operations office in West Perth. Both leases continue on a month-to-month basis.

CONDENSED NOTES TO THE INTERIM FINANCIAL REPORT
HALF YEAR ENDED 31 DECEMBER 2016

C Profit and loss items

		December 2016 $	December 2015 $
C.1	**Revenue**		
	Interest income	2,480	24,954
		2,480	24,954
C.2	**Expenses**		
	Personnel expenses		
	- Director fees and employee expenses	69,460	98,932
	- Superannuation and leave entitlements expense	8,203	18,875
		77,663	117,807
	Depreciation expense	2,231	2,039
	Administration expenses		
	- Accounting, annual report, tax and secretarial fees	63,179	76,435
	- Audit expenses	10,842	6,737
	- Consultancy fees	14,250	19,774
	- Insurance expenses	8,768	8,137
	- Legal expenses	36,512	1,099
	- Regulatory fees	4,333	5,429
	- Operating lease expenses	32,500	32,500
	- Other expenses	15,076	22,726
	Total administration expenses	185,460	172,837
	Total expenses	265,354	292,683

C.3 Taxation

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

Loss before income tax expense	(440,969)	(396,796)
Income tax benefit calculated at 28.5% (2015:30.0%)	(125,676)	(113,087)
Effect of non-deductible item – entertainment/other	-	-
Increase in deferred tax liability balance not previously recognised	2,115,226	
Increase in deferred tax asset balances not previously recognised	(1,848,624)	-
Increase in deferred tax balance not brought to account	-	113,087
Income tax expense	140,926	-

Set-off deferred tax liabilities pursuant to off-set provisions

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

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

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

C Profit and loss items (continued)

C.3 Taxation (continued)

	December 2016 $	December 2015 $
Deferred tax assets not brought to account		
Carry forward tax losses	-	2,349,169
Capital raising costs	-	4,933
Provisions and accruals	-	164,136
	-	2,518,238
Deferred tax liabilities not brought to account		
Prepayments	-	6,333
Interest receivable	-	771
Exploration and evaluation costs	-	2,490,460
	-	2,497,564

D Other assets and liabilities

D.1 Trade and other receivables

	December 2016 $	June 2016 $
GST receivable	22,359	6,882
Interest receivable	44	194
Security deposit	29,950	29,950
Other receivables	4,971	4,971
	57,324	41,997

Estimates and judgement
Recoverability of the assets

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

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

Credit risk (excludes GST)	December 2016 $	June 2016 $
A-1+ [1]	29,994	30,144
No credit rating available (received after year end)	4,971	4,971
	34,965	35,115

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

D Other assets and liabilities (continued)

D.2 Other assets

	December 2016 $	June 2016 $
Prepaid rent	5,417	5,417
Prepaid insurance	14,249	5,918
	19,666	11,335

D.3 Plant and Equipment (administration)

	December 2016 $	June 2016 $
Office Equipment	15,544	16,024
Accumulated depreciation	(7,170)	(5,903)
	8,374	10,121
Furniture and fittings	7,555	7,555
Accumulated depreciation	(2,142)	(1,764)
	5,413	5,791
Leaseholder improvements	635	635
Accumulated depreciation	(601)	(495)
	34	140
Total administration assets	13,821	16,052

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

	Office Equipment $	Furniture & Fittings $	Leasehold Improvements $	Total $
Opening net book value at 1 Jul 2016	10,121	5,791	140	16,052
Additions during the half year	-	-	-	-
Disposals during the half year	(200)	-	-	(200)
Depreciation expense	(1,547)	(378)	(106)	(2,031)
Closing net book value at 31 Dec 2016	8,374	5,413	34	13,821

D.4 Trade and other payables (debts)

	December 2016 $	June 2016 $
Current liabilities (debts payable within 12 months)		
Trade creditors	237,833	121,915
Other creditors and accrual	454,495	766,321
	692,328	888,236
Non-current liabilities (debts payable after 12 months)		
Other creditors and accruals [1]	498,533	-
	498,533	-

1. Refer to note B.3 for details of the repayment period for the non-current liabilities.

Due to the short-term nature of current payables, the carrying amount of trade and other payables approximates their fair value. The fair value of the non-current payables has been assessed, taking into account the time value of money and the carrying value is not considered to be materially different to its fair value.

D Other assets and liabilities (continued)

	December 2016 $	June 2016 $
D.5 Employee benefits obligations		
Annual leave – current	75,468	70,774
Annual leave – current (due for payment within 12 months)		
Reconciliation		
Balance brought forward	70,774	14,092
Movement during the period/year	4,694	14,520
Transfer from non-current liabilities	-	42,162
Balance carried forward	75,468	70,774
Long service leave – non-current	6,240	9,330
Annual and Long service leave – non-current liabilities (debts payable after 12 months)		
Reconciliation		
Balance brought forward	9,330	48,132
Movement during the period/year	(3,090)	3,360
Transfer from non-current liabilities	-	(42,162)
Balance carried forward	6,240	9,330

E Additional disclosures

E.1 Subsequent events

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 2016.

E.2 Contingent liabilities

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

	December 2016 $	June 2016 $
E.3 Operating Commitments		
Remunerations commitments		
Within one year	119,973	100,000
After one year but not more than five years	40,000	
	159,973	100,000

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 (debts payable) are listed above.

E Additional disclosures (continued)

E.4 Segment reporting

	Mineral Exploration $	Corporate Admin $	Company $
Half Year ended 31 December 2016			
Segment Revenue	-	2,480	2,480
Significant expenses within the loss			
Interest expenses	-	(178,095)	(178,095)
Depreciation and amortisation	-	(2,231)	(2,231)
Impairment of assets	-	-	
Segment net operating profit/(loss) after tax	-	(581,894)	(581,894)
Half Year ended 31 December 2015			
Segment Revenue	-	24,954	24,954
Significant expenses within the loss			
Interest expenses	-	(129,067)	(129,067)
Depreciation and amortisation	-	(2,039)	(2,039)
Impairment of assets	-	-	-
Segment net operating profit/(loss) after tax	-	(396,796)	(396,796)
Segment assets			
At 31 December 2016	7,423,641	2,711,091	10,134,732
At 30 June 2016	7,925,204	952,044	8,877,248
Segment liabilities			
At 31 December 2016	(181,437)	(4,857,058)	(5,038,495)
At 30 June 2016	(101,298)	(4,492,041)	(4,593,339)

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

5.5 Related party transactions

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

The Company's key management personnel for the period 1 July 2016 to 31 December 2016 were:
Mr Brent Butler
Datuk Siew Swan Ong
Mr Geoffrey Han

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

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

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

E Additional disclosures (continued)

		Transaction Value		Outstanding balance	
		December 2016	December 2015	December 2016	December 2015
Director / executive	**Transaction**	**$**	**$**	**$**	**$**
Mr B Butler 1	Consulting Services	60,000	60,000	-	-
Mr X Han 2	Consulting Services	112,533	-	-	-
Mr R Browning 3	Consulting Services	-	75,000	-	-

Notes in relation to the table of related party transactions.

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

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

3. A company associated with Mr Browning, Trams Services Pty Ltd, provided consulting services in connection with the Company's pre-feasibility study. Terms for such services were based on market rates, and amounts were payable on a monthly basis. Mr Browning resigned as a director on 30 June 2016.

There are no other related party transactions (other than directors' fees and director's salaries) to be disclosed in the interim financial report. The total amount owed to the directors for salaries as at 31 December 2016 which remain unpaid are $372,146 (refer note D.4) (2015: $240,000).

DIRECTORS' DECLARATION

In the opinion of the directors of Audalia Resources Limited:

(a) the financial statements and notes set out on pages 7 to 24 are in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

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

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the Managing Director and Chairman required by section 295A of the Corporations Act 2001.

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

Brent Butler

Executive Director and CEO

Dated at Perth, Western Australia this 16th day of March 2017.