audalia resources limited

ACN 146 035 690

INTERIM FINANCIAL REPORT

For the six months ended 31 December 2018

CORPORATE DIRECTORY

DIRECTORS

Executive Director	Mr Siew Swan Ong
Executive Director/ CEO	Mr Brent Butler
Non-Executive Director	Mr Xu (Geoffrey) Han

COMPANY SECRETARY

Ms Karen Logan

PRINCIPAL PLACE OF BUSINESS AND REGISTERED OFFICE

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WEST PERTH WA 6005
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SECURITIES EXCHANGE

ASX Limited
Level 40, Central Park
152-158 St George's Terrace
Perth WA 6000

ASX Code: ACP

SHARE REGISTRY

Advanced Share Registry Limited
110 Stirling Highway
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PO Box 1156
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BANKER

National Australia Bank
Level 14
100 St George's Terrace
Perth WA 6000

AUDITOR

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

CONTENTS

DIRECTORS' REPORT

The Directors present the interim financial report of Audalia Resources Limited (the **Company or Audalia**) for the half-year ended 31 December 2018 and the auditor's review report thereon:

DIRECTORS AND COMPANY SECRETARY

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.

Mr 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*
Ms Karen Logan *(Company Secretary) – appointed 27 August 2010*

PRINCIPAL ACTIVITIES

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

REVIEW OF ACTIVITIES

Audalia Resources Limited (ASX: **ACP**) is pleased to present its interim financial report for the six months ended 31 December 2018 to shareholders and provide some insight into the advancement the Company has made in its activities to date.

OVERVIEW

MEDCALF PROJECT

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

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

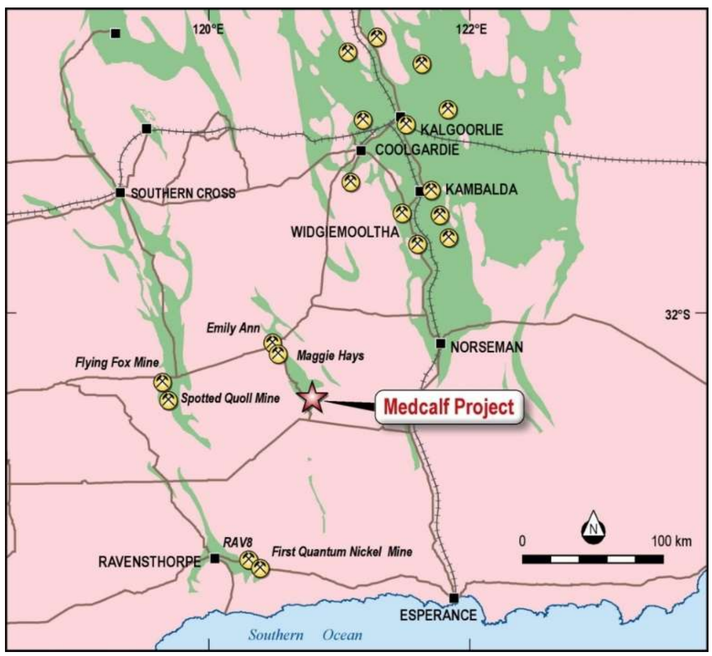

Figure 1: Medcalf Project - Location Map

Activities conducted during the half year

During the period, the Company completed an 89-hole RC drill programme for 3,794m designed to delineate additional mineralisation with the aim of increasing the current mineral resource base through drilling in adjacent areas (Pinatubo and Kilimanjaro Prospects) previously not drill tested. Concurrently, the Company completed drilling to the west of the Vesuvius Prospect.

Updated Mineral Resource Estimate

On 31 August 2018, Audalia Resources reported an updated Mineral Resource estimate for the Medcalf Project in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2012 Edition (**JORC 2012**).

During the half year independent geologist, Cube Consulting, constructed a new geological model for Egmont, Vesuvius and Fuji along with two new additional prospects, Pinatubo and Kilimanjaro that lie southeast of Fuji (Figure 2).

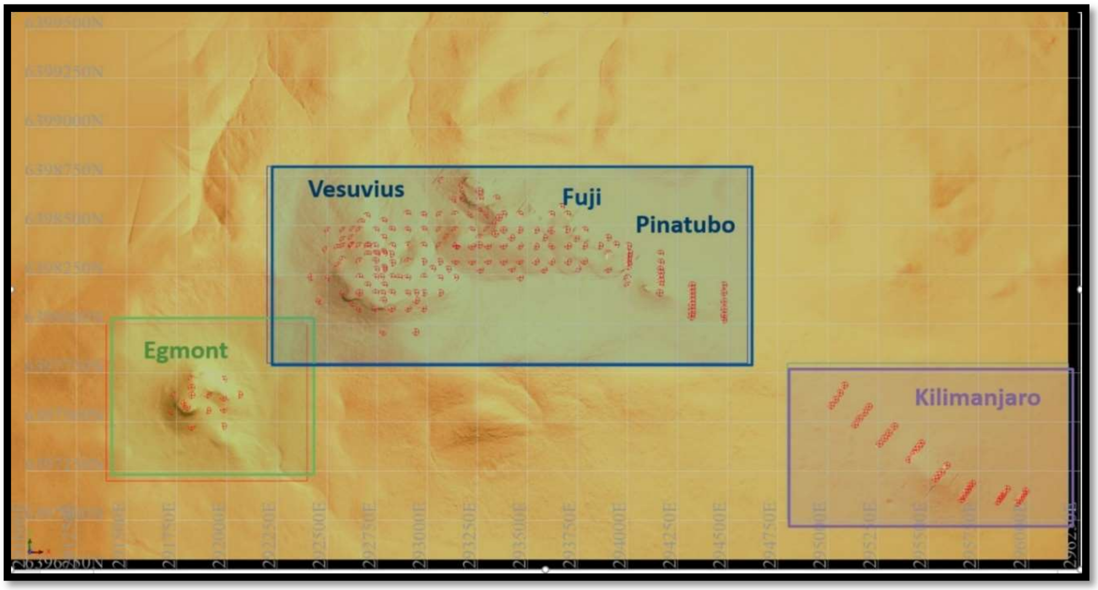

Figure 2 – Prospect location plan

At total of 212 reverse circulation (**RC**) holes for 7,340m and 19 PQ core holes for 839.2m were used to estimate the resource. All holes were drilled by Audalia Resources. Blanks, standards and duplicates were inserted into the assay run after every 20th sample for quality control and assurance.

Cube Consulting constructed the resource model (Figure 3) from first principles and estimated the following in Table 1 below.

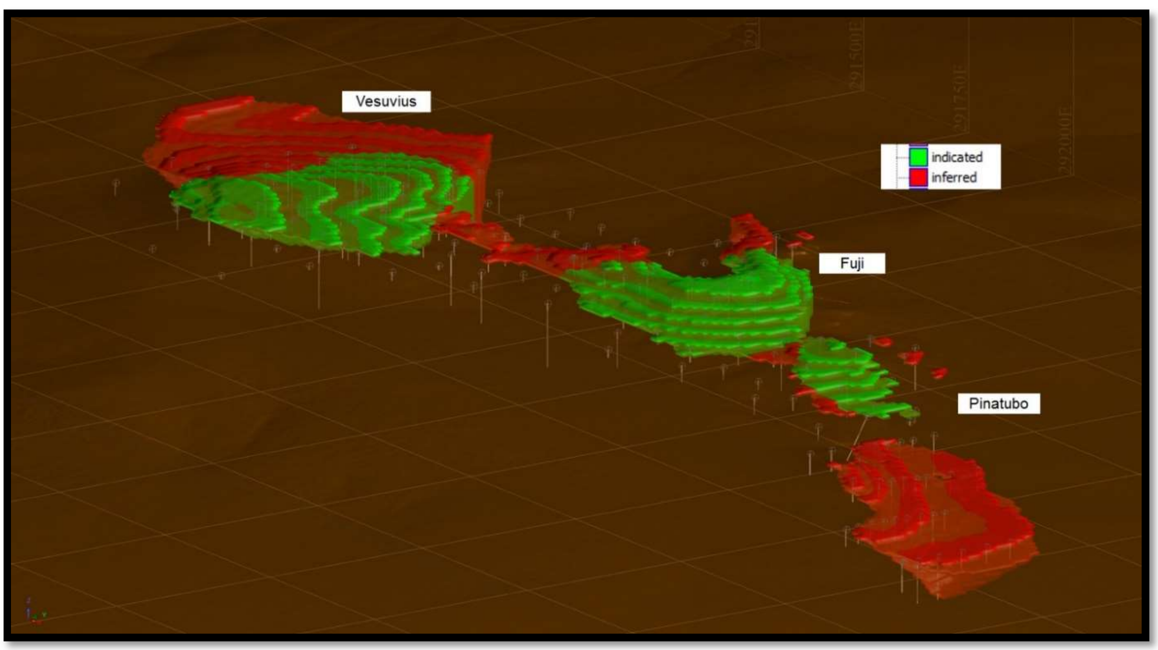

Figure 3 – Oblique view looking northwest

Resource Classification	Prospect	Tonnes (Mt)	V_2O_5 %	TiO_2 %	Fe_2O_3 %	Al_2O_3 %	SiO_2 %
Indicated	*Vesuvius*	17.4	0.54	9.82	54.6	8.9	16.9
	Egmont	0.8	0.64	11.86	62.0	7.9	10.0
	Kilimanjaro	-	-	-	-	-	-
Sub-Total Indicated		**18.2**	**0.55**	**9.91**	**54.9**	**8.9**	**16.6**
Inferred	*Vesuvius*	10.0	0.37	8.08	41.0	9.7	28.4
	Egmont	-	-	-	-	-	-
	Kilimanjaro	3.8	0.35	6.90	43.7	9.6	28.8
Sub-Total Inferred		**13.8**	**0.37**	**7.75**	**41.8**	**9.7**	**28.5**
Total Resource		**32.0**	**0.47**	**8.98**	**49.2**	**9.2**	**21.7**

Table 1 – Resource Estimate (N.B – Pinatubo and Fuji are combined with Vesuvius)

The resource model was restricted using a resource limiting shell that meets JORC 2012 that the resource estimated must have potential economic extraction. The lower cut-off for this threshold was calculated to be 0.20% V2O5.

The updated Mineral Resource estimate has increased the metal content through higher grades at the Medcalf Project.

Audalia Resources is not aware of any new information or data that materially affects the information included in the updated Mineral Resource estimate announced on 31 August 2018 and all material assumptions and technical parameters underpinning the estimates continue to apply and have not materially changed.

The updated Mineral Resource estimate confirms the potential for Audalia to have a viable mining operation and the Company is currently working with the regulators to obtain the necessary environmental approvals.

Environmental Approval

The Company continued to progress the environmental approval application with Western Australia Environmental Protection Authority (**EPA**) and other government departments. The Company and its environmental consultants continued to engage with EPA, Department of Biodiversity, Conservation and Attractions (**DBCA**) and other regulators defining the requirement for Environmental Impact Assessment (**EIS**). The Environmental Scoping Document (**ESD**) was submitted to EPA for review and approval. The ESD is currently being assessed by EPA.

Additionally, the Company and its environmental consultants continued to progress the studies required to support Audalia's Environmental Review Document.

Additional tenure

One tenement application for the Medcalf Project, exploration licence E63/1915, was submitted to the Department of Mines, Industry Regulation and Safety during the period.

Schedule of Tenements as at 31 December 2018

Projects	Licence Number	Registered Holder / Applicant	Status	Audalia's Interest
__Western Australia__				
Medcalf	E63/1133	Audalia Resources Limited	Granted	100%
	E63/1134	Audalia Resources Limited	Granted	100%
	M63/656	Audalia Resources Limited	Granted	100%
	E63/1855	Audalia Resources Limited	Granted	100%
	L63/75	Audalia Resources Limited	Granted	100%
	E63/1955	Audalia Resources Limited	Application	0%

Competent Person's Statement

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

CORPORATE

Results

The Company incurred a loss of $350,018 after income tax for the half-year (2017: loss $388,523) which includes financing costs (interest expense) of $159,441 (2017: $176,962).

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

EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to period end, the Company received R&D tax incentive rebate of $579,502 for the 2018 financial year.

Other than noted above, 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 7 and forms part of this directors' report for the half-year ended 31 December 2018.

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 15th day of March 2019.

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

As lead auditor for the review of Audalia Resources Limited for the half-year ended 31 December 2018, I declare that, to the best of my knowledge and belief, there have been:

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

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

Jarrad Prue

Director

BDO Audit (WA) Pty Ltd

Perth, 15 March 2019

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR HALF YEAR ENDED 31 DECEMBER 2018

	Notes	December 2018 $	December 2017 $
Revenue from continuing operations			
Revenue		6,136	3,118
Expenses			
Financing costs (interest expense)		(159,441)	(176,962)
Loss on disposal of exploration assets		-	(32,071)
Corporate and administration expenses		(196,713)	(182,608)
Profit / (loss) before income tax expense		(350,018)	(388,523)
Income tax (expense) / benefit		-	-
Net profit / (loss) for the half year		(350,018)	(388,523)
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		(350,018)	(388,523)
Loss per share attributed to the owners of the Company			
Basic and diluted loss per share (cents per share)		(0.06)	(0.10)
Calculation of loss per share			
Loss for the half year		(350,018)	(388,523)
Number of shares at the beginning of the period	6	592,136,191	383,457,434
Number of shares used to calculate the loss per share for the half year		592,136,191	383,457,434

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

audalia resources limited

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Notes	December 2018 $	June 2018 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	844,958	1,878,961
Trade and other receivables		47,073	46,993
Other assets		31,524	10,904
Total current assets		923,555	1,936,858
NON-CURRENT ASSETS			
Plant and equipment		11,432	13,491
Exploration and evaluation expenditure	2	8,789,187	7,997,865
Investments		50,000	50,000
Total non-current assets		8,850,619	8,061,356
TOTAL ASSETS		9,774,174	9,998,214
LIABLITIES			
CURRENT LIABILITIES			
Trade and other payables	4	1,513,578	682,981
Employee benefits obligations		55,960	51,318
Borrowings	5	2,000,000	100,000
Total current liabilities		3,569,538	834,299
NON-CURRENT LIABILITIES			
Employee benefits obligations		10,000	8,000
Other payables	4	-	611,261
Borrowings	5	1,000,000	3,000,000
Total non-current liabilities		1,010,000	3,619,261
TOTAL LIABILITIES		4,579,538	4,453,560
NET ASSETS		**5,194,636**	**5,544,654**
EQUITY			
Issued capital	6	10,483,724	10,483,724
Reserves		10,000	10,000
Accumulated losses	7	(5,299,088)	(4,949,070)
TOTAL EQUITY		**5,194,636**	**5,544,654**

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

STATEMENT OF CHANGES IN EQUITY
HALF YEAR ENDED 31 DECEMBER 2018

	Issued capital	Accumulated losses	Reserve	Total equity
	$	$	$	$
Balance at 1 July 2018	10,483,724	(4,949,070)	10,000	5,544,654
Loss for the half year	-	(350,018)	-	(350,018)
Total comprehensive income/(loss) for the half year	10,483,724	(5,299,088)	10,000	5,194,636
Transactions with Shareholders in their capacity as shareholders	-	-	-	-
Balance at 31 Dec 2018	10,483,724	(5,299,088)	10,000	5,194,636

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

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

STATEMENT OF CASH FLOWS
HALF YEAR ENDED 31 DECEMBER 2018

	Notes	December 2018 $	December 2017 $
Cash flows from operating activities			
Payments to suppliers and employees		(231,590)	(457,517)
Interest paid		-	(419)
Interest received		4,404	3,305
Net cash outflows from operating activities		(227,186)	(454,631)
Cash flows from investing activities			
Payments for exploration expenditure		(680,171)	(529,745)
Proceeds from R&D incentives for exploration and evaluation		-	415,479
Net cash outflows from investing activities		(680,171)	(114,266)
Cash flows from financing activities			
Payment of share issue costs		(26,646)	-
Repayment of borrowings		(100,000)	
Net cash outflows from financing activities		(126,646)	-
Net movement in cash flows for the period		(1,034,003)	(568,897)
Cash and cash equivalents at the beginning of the period		1,878,961	1,485,702
Cash and cash equivalents at end of half year	3	844,958	916,805

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

CONDENSED NOTES TO THE INTERIM REPORT

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Audalia Resources Limited (the **Company**) is a company domiciled in Australia. Audalia Resources Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX). The interim financial report for six months ended 31 December 2018 were authorised for issue in accordance with a resolution of directors on 15 March 2019.

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 2018 has been prepared in accordance with accounting standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

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

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

(ii) Basis of measurement and reporting convention

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

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

(iii) *Going concern*

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

The Company incurred a loss after tax of $350,018 Total net cash outflows from operating and investing activities of $907,357 for the half year ended 31 December 2018.

The Directors have prepared an estimated cash flow forecast for the period to June 2020 to determine if the Company may require additional funding during this period. The cash flow forecast includes a number of assumptions regarding exploration activity and funding requirements which have not yet been finalised. This results in a material uncertainty that may cast a significant doubt about the Company's ability to continue as a going concern.

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

- The Company has access to cash reserves of $ 844,958 as at 31December 2018 (30 June 2018: $1,878,961).
- As at balance date, the Company's unsecured loans, not subject to any covenants are not due and payable until November 2019 and March 2020.
- The Company has the ability to adjust its exploration expenditure subject to results of its exploration activities.
- The Directors anticipate the support of the Company's major shareholders and lenders to continue with the advancement of the Medcalf Project.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Segment reporting

The Company's segments have remained consistent during the reporting periods (refer to note 10).

(c) 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.

(i) AASB 9: Financial Instruments

AASB 9 Financial Instruments replaces the provisions of AASB 139 Financial Instruments: Recognition and Measurement that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Company has adopted AASB 9 with a date of initial application of 1 July 2018 and has elected not to restate its comparatives. The adoption of AASB 9 Financial Instruments from 1 July 2018 did not give rise to any material transitional adjustments. The new accounting policies (applicable from 1 July 2018) are set out below.

Classification and measurement

The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under AASB 9 financial assets are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The new classification and measurement of the Company's financial assets are, as follows:

- Debt instruments at amortised cost, for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the 'SPPI criterion'. This category includes the Company's other receivables.
- Equity instruments at FVOCI , with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments which are not held-for-trading and which the Company has irrevocably elected to so classify upon initial recognition or transition. Equity instruments at FVOCI are not subject to an impairment assessment under AASB 9. For this category there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Company's right to receive payments is established. The Company has irrevocably elected to classify all of its equity instruments as equity instruments at FVOCI.

On transition to AASB 9 the assessment of the Company's business models was made as of the date of initial application, 1 July 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

Impairment

From 1 July 2018 the Company assesses on a forward looking basis the expected credit losses (ECLs) associated with its debt instruments carried at amortised cost and FVOCI. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For debt financial assets, the ECL is based on either the 12-month or lifetime ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. When there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

(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 2018 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 16 *Leases*	AASB 16 eliminates the operating and finance lease classifications for lessees currently accounted for under AASB 117. 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. Adoption of AASB 16 is mandatory for the year ending 30 June 2019. As at the reporting date, the Company is on monthly tenancies for both of its commercial offices and has not entered into any non-cancellable operating leases. The Company does not expect that the impact of AASB 16 to be different than under the former AASB 117. This will however, also be dependent on lease arrangements in place when the Company first adopts the new standard.	1 Jan 2019

CONDENSED NOTES TO THE INTERIM REPORT

	December 2018 $	June 2018 $
2. Exploration and evaluation assets		
Exploration, evaluation and development costs carried forward in respect of areas of interest	8,789,186	7,997,865
Reconciliation – Medcalf		
Carrying amount at the beginning of the period	7,997,865	6,674,854
Additions to the exploration and evaluation asset	791,321	1,738,490
Less: R&D tax incentive received	-	(415,479)
Carrying amount at end of the period	8,789,186	7,997,865
Reconciliation – Gascoyne		
Carrying amount at the beginning of the period	-	50,000
Less: Transfer to loss on disposal of Gascoyne	-	(50,000)
Carrying amount at end of the period	-	-

	December 2018	June 2018
3. Cash		
Cash at bank and in hand	328,395	1,862,786
Term deposit	516,563	16,175
Cash as per cash flow statement	844,958	1,878,961

	December 2018 $	June 2018 $
4. Trade and other payables		
<u>*Current liabilities (debts payable within 12 months)*</u>		
Trade creditors	196,098	108,501
Other payables and accruals [2]	1,236,280	574,480
	1,432,378	682,981
Other payables		
<u>*Non-current liabilities (debts payable after 12 months)*</u>		
Other payables [1]	81,200	611,261
	81,200	611,261

1. The amount relates to the unpaid interest on the non-current borrowings as at 31 December 2018.
2. The amount includes unpaid interest of $ 689,503 on current borrowings as at 31 December 2018.

Refer to note 5 for details of the repayment period for borrowings.

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.

5. Borrowings (loans)

	December 2018 $	June 2018 $
Current	2,000,000	100,000
Borrowings – (payable within one year)	2,000,000	100,000
Non-current	1,000,000	3,000,000
Borrowings – (payable after one year)	1,000,000	3,000,000

Terms of the borrowings
The key terms of the loans are listed below:

- $2,000,000 loan is at interest rate of 8% and $1,000,000 loan is at interest rate of 10%, both compounded daily and payable at the end of the loan term.
- Loans are from private investors, due to be repaid on 20 November 2019 and 31 March 2020 respectively (together with the interest), are unsecured and not subject to any covenants.

6. Equity

(a) Ordinary shares

	December 2018 Number	December 2018 $	June 2018 Number	June 2018 $
Balance at the beginning of the period	592,136,191	10,483,724	383,957,434	8,442,457
Entitlement issue at $0.01 (22 June 2018)	-	-	208,178,757	2,081,788
Share issue costs	-	-	-	(40,521)
Balance as at end of the period	592,136,191	10,483,724	592,136,191	10,483,724

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.

7. Accumulated losses

	December 2018 $	June 2018 $
Accumulated losses at the beginning of the year	(4,949,070)	(5,153,077)
Net profit / (loss) for the period	(350,018)	204,007
Accumulated losses at the end of the period	(5,299,088)	(4,949,070)

8. 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 is 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.

The overall financial risk management strategy focuses on the unpredictability of the equity markets and seeks to minimise the potential adverse effects due to movements in financial liabilities or assets. The Company holds the following financial instruments as at 31 December 2018:

	December 2018 $	June 2018 $
Financial assets		
Cash and cash equivalents	844,958	1,878,961
Trade and other receivables	31,919	30,187
	876,878	1,909,148
Financial liabilities		
Trade and other payables	(1,513,578)	(682,981)
Borrowings	(3,000,000)	(3,100,000)
	(4,513,578)	(3,782,981)

Fair value of financial assets and liabilities

The fair value of financial assets and liabilities must be estimated for recognition and measurement or for disclosure purposes. The Directors consider that the carrying amounts of current financial assets and financial liabilities recorded in the financial statements approximate their fair values due to their short-term maturity.

9. Contingent liabilities

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

10. Segment reporting

	Mineral Exploration $	Corporate Admin $	Company $
Half Year ended 31 December 2018			
Segment Revenue	-	6,136	6,136
Significant expenses within the loss			
Interest expenses	-	*159,441*	*159,441*
Depreciation and amortisation	-	*1,560*	*1,560*
Loss on sale of assets	-	-	-
Segment net operating profit/(loss) after tax	-	(350,134)	(350,134)
Half Year ended 31 December 2017			
Segment Revenue	-	3,118	3,118
Significant expenses within the loss			
Interest expenses	-	*(176,962)*	*(176,962)*
Depreciation and amortisation	-	*(2,015)*	*(2,015)*
Loss on sale of assets	*(32,071)*	-	*(32,071)*
Segment net operating profit/(loss) after tax	(32,071)	(356,452)	(388,523)
Segment assets			
At 31 December 2018	8,843,087	931,086	9,774,174
At 30 June 2018	8,052,264	1,945,949	9,998,213
Segment liabilities			
At 31 December 2018	(386,358)	(4,193,180)	(4,579,538)
At 30 June 2018	(276,347)	(4,177,213)	(4,453,560)

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

11. 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 2018 to 31 December 2018 were:
Mr Brent Butler
Siew Swan Ong
Mr Geoffrey Han

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

Two entities associated with the directors have consulting agreements in place which have 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 below:

11. Related party transactions (continued)

		Transaction Value		Outstanding balance	
		December 2018	December 2017	December 2018	December 2017
Director / executive	Transaction	$	$	$	$
Mr B Butler 1	Consulting Services	60,000	60,000	-	-
Mr X Han 2	Consulting Services	91,200	92,150	-	-

<u>Notes in relation to the table of related party transactions.</u>

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

There are no other related party transactions (other than directors' fees and director's salaries) to be disclosed in the interim financial report. The total amount owed to the directors for salaries as at 31 December 2018 which remain unpaid are $300,000 (which forms part of the other creditors and accrued balance) (30 June 2018: $260,000).

12. Operating Commitments

Remunerations 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 (debts payable) are listed.

	31 Dec 2018	30 June 2018
	$	$
Within one year (1) (2)	40,000	200,000
After one year but not more than five years	-	-
	40,000	200,000

(1) CEO's consulting agreement (extended for a further two years in April 2017 to April 2019) relevant for period ended 31 December 2018.

(2) Mr Siew Swan Ong's contract which was extended to 4 July 2019 is currently on a month on month basis

13. Subsequent events

Subsequent to period end, the Company received an R&D tax incentive rebate of $579,502 for the 2018 financial year.

Other than noted above, between the interval after the balance date and the date of this report, there has not arisen any transaction or event of a material and unusual nature which will affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company.

DIRECTORS' DECLARATION

In the opinion of the directors of Audalia Resources Limited:

(a) the financial statements and notes set out on pages 8 to 19 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 2018 and its performance for the half-year ended on that date; and

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

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

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

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

Brent Butler
Executive Director and CEO

Dated at Perth, Western Australia this 15th day of March 2019.

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Audalia Resources Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Audalia Resources Limited (the Company), which comprises the statement of financial position as at 31 December 2018, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year then ended, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration.

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

(i) Giving a true and fair view of the company's financial position as at 31 December 2018 and of its financial performance for the half-year ended on that date; and

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

Emphasis of matter – Material uncertainty relating to going concern

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

Directors' responsibility for the Half-Year Financial Report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2018 and its performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

BDO Audit (WA) Pty Ltd

BDO

Jarrad Prue

Director

Perth, 15 March 2019