



ACN 146 035 690

2016 ANNUAL REPORT

For the year ended 30 June 2016

CORPORATE DIRECTORY

DIRECTORS

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

COMPANY SECRETARY

Ms Karen Logan

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REVIEW OF ACTIVITIES

Audalia Resources Limited (ASX: **ACP**) is pleased to present its financial report for the year ended 30 June 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 going forward.

OVERVIEW

MEDCALF PROJECT

The Medcalf vanadium - titanium Project is located 470km east-southeast of Perth near Lake Johnston. The Project comprises two granted Exploration Licences E63/1133 and E63/1134, and three Prospecting Licences P63/1528, P63/1560 and P63/1561 as well as mining lease M63/656. Together these licences cover a total area of 24 km².

The 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 vaniferous 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.

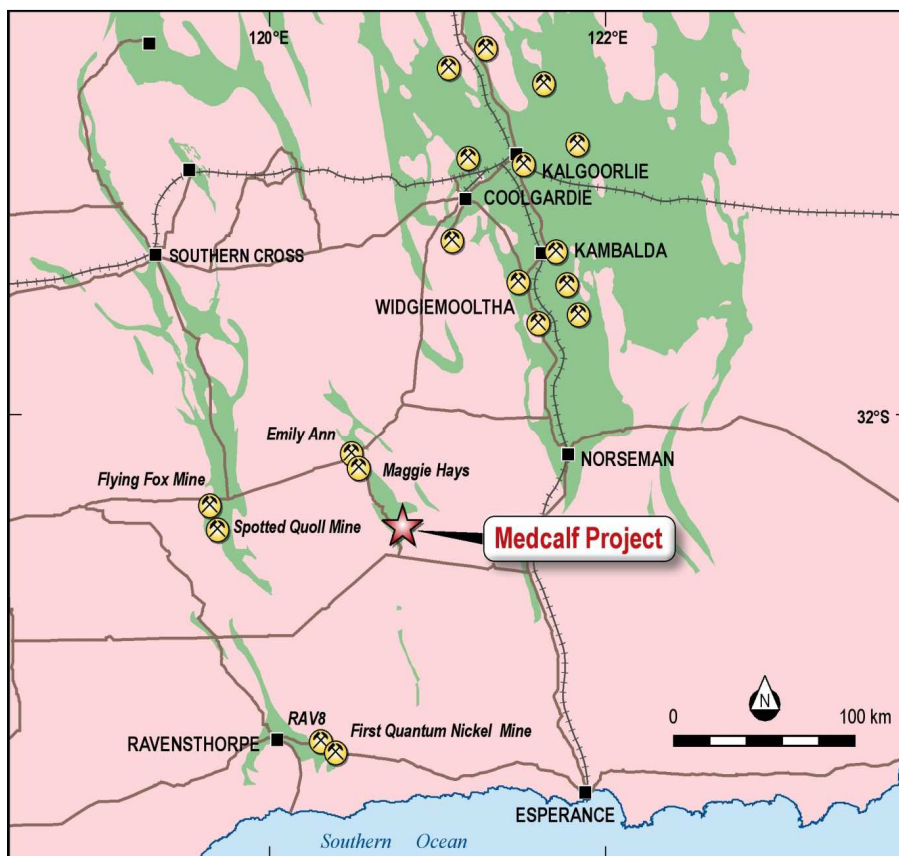


Figure 1: Medcalf Project location map

Activities conducted during the year

The 2016 financial year has been a productive and rewarding year for the Company and its flagship Medcalf Project. The Company commenced the year focusing its attention on four key areas: securing an agreement with the traditional owners of the land, the Ngadju People, obtaining the mining lease over the Medcalf Project, continuing its pre-feasibility study (PFS) with the commencement of the metallurgical testwork and obtaining the necessary approvals to commence a drilling programme once a heritage agreement had been reached. In addition to these focuses, the Company continued environmental work by conducting target searches of flora conservational significance and updating its Conservation Management Plan.

REVIEW OF ACTIVITIES

The December quarter was an extremely busy quarter and saw the Company achieve two significant milestones. The first was the signing of the definitive agreement with the Ngadju People on 9 November 2015. The agreement has provided the Company with certainty as to its rights to tenure and the ability to develop the Medcalf Project and conduct operations. The terms of the agreement have also ensured that the Ngadju People, the sole native title holders in the area encompassing the Medcalf Project, will share in the benefits of the Project from both an economic and social standpoint. The completion of this agreement was also a condition precedent to the grant of mining lease application by the Department of Mines and Petroleum (**DMP**).

Subsequently, on 13 November 2015, the Company received notice from the DMP that the granting of mining lease application M63/656 had been approved. This was the second significant milestone for the Company and allowed the Company to commence the process to seek the necessary regulatory approvals and permits required for the development of the Medcalf Project.

The Company also made significant progress in its PFS during the December quarter with work commencing on hydrology, geology, mining, environment, power as well as the marketing and financing elements of the study in addition to advancing the metallurgical testwork. The hydrometallurgical testwork focused on the recoveries and grade as well as flowsheet optimisation with a view to analysing the overall project development as part of the PFS.

The Company also designed and completed a 17-hole drill programme produced 723.1m of PQ core for further test work to assist in defining the metallurgical characteristics of the Medcalf Project mineralisation and progressing the optimal process flow sheets.

The third quarter saw the Company complete its PFS for its flagship Medcalf Project which was announced to ASX on 9 March 2016. The study validates the potential for a viable vanadium-titanium mining and processing operation, with iron by-products and provides opportunities to evaluate options to further reduce operating and capital costs and reduce the environmental impact of the operations.

The study also highlighted a number of priority actions have been recommended as a forward work plan including interim metallurgical testwork, environmental approvals and permitting, infill drilling and exploration, which will be pursued leading into the definitive feasibility study (**DFS**).

In addition to completing the PFS the Company commenced the next phase of metallurgical testwork to further optimise the flow sheet and increase the confidence of the key assumptions used in the PFS and completed rehabilitation of the 17-hole PQ drill core programme which was undertaken during the December 2015 quarter. Audalia's Conservation Management Plan was updated during the quarter to reflect the proposed drill programme together with data from recent flora surveys conducted at the Medcalf Project. In May 2016, the Company received confirmation from the Department of Parks and Wildlife (**DPaW**) that Audalia's Conservation Management Plan is acceptable to DPaW's departmental standards.

Following completion of the PFS, the Company has continued the interim metallurgical testwork programme to optimise the flow sheet and increase confidence in the key assumptions with its overseas consultant. The Company has also received approvals for the Programme of Works from DMP and permits granted by DPaW to enable the Company to undertake drill programmes to upgrade the Mineral Resource category to Ore Reserve.

The Company also submitted all of its annual environmental and technical reports for the Medcalf Project during the period.

GASCOYNE PROJECT

The Gascoyne Project comprises 100% owned tenements covering 537km² 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.

REVIEW OF ACTIVITIES

GASCOYNE PROJECT (continued)

Audalia is targeting a Broken Hill Sedimentary Exhalative (SEDEX) massive sulphide Pb, Zn and Cu deposit.

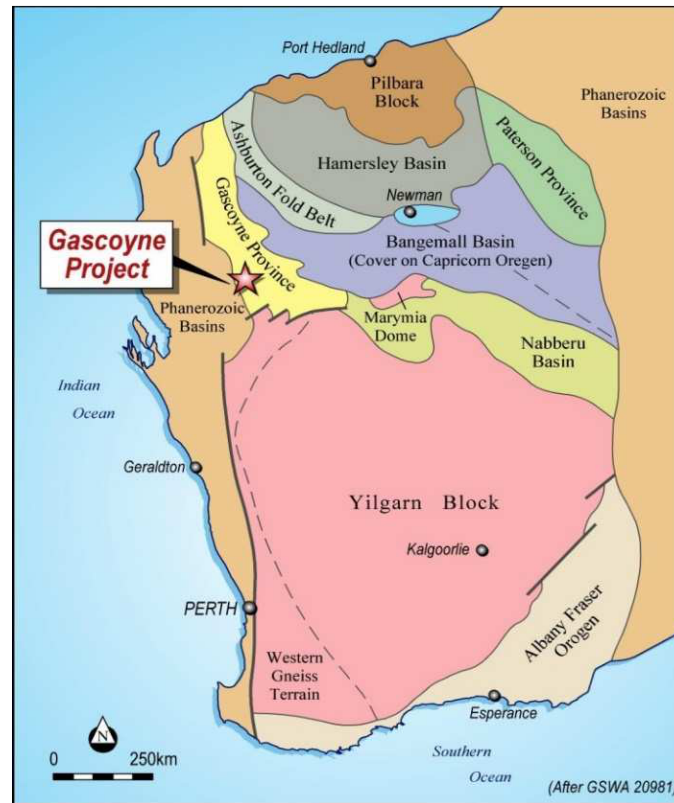


Figure 2: Gascoyne Project - Location Map

Activities conducted during the year

On 15 July 2016, the Company received confirmation that DMP had granted Audalia's application for E09/2102 following the signing of a heritage agreement with the Gnulli People on 14 July 2015. This provided certainty of tenure to the exploration licence and enabled the Company to focus its attention on exploring the entire tenement package.

During the December and March quarters, a number of tenements forming part of the Gascoyne Project became due for their mandatory reduction process as the original tenement area had reached its six year timeframe having passed since the original grant of the exploration licences. The Company undertook an analysis of the tenement holdings and reduced the non-prospective areas as part of the review.

The Company also applied for and was granted exemption from the expenditure conditions for the 2014/15 period in relation to each of the tenements forming part of the Gascoyne Project to enable the Company to first bring the level of geological understanding of E09/2102 in line with the rest of the tenement package before planning future works on the Project.

The Company continued its desktop evaluation work in respect of the tenement package with a view to design an initial work programme for the Gascoyne Project.

After receiving the grant for the exemption from expenditure conditions for the 2014/15 the Company commenced field work at the Gascoyne Project with a consultant geologist undertaking rock chip sampling on exploration licence E09/2102.

The Company also submitted all of its annual environmental and technical reports for the Gascoyne Project during the period.

REVIEW OF ACTIVITIES

CORPORATE

The Company had a number of board changes during the period with the most recent appointment being on 30 June 2016 with Mr Xu (Geoffrey) Han joining the board. Mr Han is a qualified chemical engineer specialising in mining project development and has been appointed to oversee the metallurgical testwork programme.

The Company also announced on 25 September 2015 the successful negotiation for the extension of the repayment date of the A\$4 million loan facilities from 20 March 2016 to 20 March 2017. As announced on 8 August 2016, the repayment date of these facilities has been further extended from 20 March 2017 date to 20 November 2018.

The share capital of the Company changed during the period as the following shares were issued in acknowledgement of employees and consultants achieving milestones within their respective agreements:

- CEO received 2,000,000 shares following the successful grant of mining lease M63/656 over the Company's flagship Medclaf Project;
- CEO received 2,000,000 shares following completion of the Medcalf Project PFS; and
- consultant received 2,500,000 shares for services rendered.

The Company also received an Australian Government R&D tax rebate of approximately \$600,000 for the year ended 30 June 2015 during the period and drew down amounts totaling \$625,000 on the loan facilities.

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. Mr Butler is a consultant geologist with 32 years' experience as a geologist. 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 consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

DIRECTORS' REPORT

The Directors present their report together with the financial statements of Audalia Resources Limited (the **Company**) for the year ended 30 June 2016.

DIRECTORS

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

Mr Brent Butler

Chief Executive Officer and Director – Age 56, appointed: 16 February 2011

Mr Butler is a geologist with over 30 years' experience in the resource industry. He has a geology degree from Otago University and is a member of the Australasian Institute of Mining and Metallurgy. Mr Butler is also a Fellow of the Society of Geology (USA) and a member of Prospectors Development of Canada. He is currently the President and CEO of Superior Mining International Corporation, Director of Redhill Resources Corp and Managing Director of its Australian subsidiary. He has significant international exploration and mining experience in the gold industry, having worked in the United States, Brazil, Chile, Argentina, Africa and Australia.

Datuk Siew Swan Ong

Executive Director – Age 44, appointed: 9 October 2010

Datuk Ong holds a Bachelor of Law degree from Bond University, Australia. He is an advocate & Solicitor for more than 20 years, including managing his own legal practice in the areas of Banking Law, Commercial Law, Land & Mining Law. He was appointed as Legal Adviser and Justice of Peace by the XIV King of Malaysia, Tuanku Halim Mu'adzam Shah.

Datuk Ong is also involved in the business of property investments & developments; security products, services & solutions, solid waste management & solution for State Government of Malaysia

Mr Xu (Geoffrey) Han

Non-Executive Director – Age 43, appointed: 30 June 2016

Mr Han holds a Masters in Chemical Engineering from Curtin University and has held senior engineering positions with a number of WA resource companies over the last 10 years. Mr Han specialises in mining project development of all stages from scoping study through to construction and has managed a number of mining projects during his career.

Mr Andrew Kwa

Non-Executive Director – Age 64, appointed: 11 October 2011 – resigned 30 September 2015

Mr Kwa has a bachelor of Computer Science degree from Teesside University in the UK. He worked as a Systems Analyst and IT Consultant for several years both in Malaysia and in Australia. Mr Kwa has extensive financial and project management experience. He is currently a consultant in a substantial property development in Western Australia.

Mr Raymond Browning

Non-Executive Director – Age 45, appointed: 3 September 2015 – resigned 30 June 2016

Mr Browning is a qualified mechanical engineer with extensive operational and project experience in the mining industry. He spent 18 years as a specialist designer, supplier and installer of specialised underground mining equipment in the Southern African mining industry. Mr Browning progressed through the ranks to the position of Managing Director of the company following a successful acquisition and merger. During this time, he gained extensive experience in business development and management, including international corporate governance.

More recently, Mr Browning assisted in various specialist consulting roles with small and large Western Australian companies providing engineering and project management services

Dato Soo Kok Lim

Executive Chairman – Age 47, appointed: 9 October 2010 – resigned 25 August 2016

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

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

DIRECTORS' REPORT

COMPANY SECRETARY

Ms Karen Logan

Appointed: 27 August 2010

Ms Logan is a Chartered Secretary with over 11 years' experience in assisting small to medium capitalised ASX-listed and unlisted companies with compliance, governance, financial reporting, capital raising, merger and acquisition, and IPO matters. She is an Associate of the Institute of Chartered Secretaries and Administrators, a Fellow of the Financial Services Institute of Australasia and a Graduate Member of the Australian Institute of Company Directors. Ms Logan is presently the principal of a consulting firm and secretary of a number of ASX-listed companies, providing corporate and accounting services to those clients.

DIRECTORSHIPS IN OTHER LISTED ENTITIES

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

Director	Company	Period of directorship	
		From	To
Dato Soo Kok Lim	Not Applicable	-	-
Datuk Siew Swan Ong	Not Applicable	-	-
Mr Brent Butler	Millennial Lithium Corp.	2006	Present
	Superior Mining International Corporation	2011	Present
Mr Xu (Geoffrey) Han	Not Applicable	-	-

DIRECTORS' INTERESTS

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

Director	Shares	Options
Datuk Siew Swan Ong	50,330,000	-
Mr Brent Butler	9,000,000	-
Mr Xu (Geoffrey) Han (appointed 30 June 2016)	-	-

DIRECTORS' MEETINGS

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

Director	Board Meetings		Audit and Risk Committee Meetings		Nomination and Remuneration Committee Meetings	
	Held ⁽¹⁾	Attended	Held ⁽¹⁾	Attended	Held ⁽¹⁾	Attended
Dato Soo Kok Lim	7	6	3	3	N/A	N/A
Datuk Siew Swan Ong	7	7	N/A	N/A	1	1
Mr Brent Butler	7	6	3	3	1	1
Mr Raymond Browning	5	5	3	3	-	-
Mr Xu (Geoffrey) Han	-	-	N/A	N/A	N/A	N/A
Mr Andrew Kwa	4	1	2	-	1	-

(1) Denotes the number of meetings that the directors were eligible to attend during their appointment.

Committee membership

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

DIRECTORS' REPORT

Members acting on the committees of the Board during the financial year were:

Nomination and Remuneration Committee	Audit and Risk Committee
Mr Brent Butler (Chairman)	Mr Brent Butler (Chairman)
Mr Andrew Kwa (resigned 30 Sept 15)	Mr Andrew Kwa (resigned 30 Sept 15)
Datuk Siew Swan Ong	Mr Raymond Browning (resigned 30 Jun 16)
Mr Raymond Browning (resigned 30 Jun 16)	Dato Soo Kok Lim
Mr Xu Han (appointed 30 Jun 16)	Mr Xu Han (appointed 30 Jun 16)

PRINCIPAL ACTIVITY

The principal activity of the Company during the financial year was mineral exploration.

OPERATING AND FINANCIAL REVIEW

Operating review

Information regarding operating activities undertaken by the Company during the year is contained in the section entitled Review of Activities in this Financial Report.

Financial review

The Company incurred a loss of \$838,509 after income tax for the financial year (2015 restated: loss of \$753,141).

As at 30 June 2016, the Company had net assets of \$4,283,910 (30 June 2015 restated: \$3,929,236), including cash and cash equivalents of \$882,660 (30 June 2015: \$2,660,781).

During the year, Audalia drew down amounts totaling \$625,000 on its loan facility in addition to receiving a Research and Development Tax Incentive of \$600,094 for expenditures incurred in the 2015 financial year.

The Audit Report issued by the Company's auditor, contains an "Emphasis of Matter" paragraph in relation to the Company's ability to continue as a "going concern". The Board of Directors considers it appropriate to prepare the Company's 2016 Financial Report on a going concern basis as there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable. These include the Company's ability to modify expenditure outlays, if required. The directors also continue to consider opportunities to source further funding to supplement its existing working capital and fund its ongoing exploration work. Further details are set out in Note 1 (a) iii to the Financial Statements.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of the Company during the financial year were as follows:

- Contributed equity increased by \$1,462,500 as a result of issuing shares to the CEO and a consultant in satisfaction of achieving contractual milestones. Details of changes in contributed equity are disclosed in Note 15(a) to the financial statements.
- Net cash position of the Company reduced by \$1,778,121 principally due to expenditure relating to the Company's Medcalf Project (including the prefeasibility study) and its Gascoyne Project.
- The Company successfully renegotiated the repayment date of its secured loan facilities to 20 March 2017 and again after the reporting date to 20 November 2018. As at 30 June 2016, Audalia had drawn down on \$3,625,000 of the facilities. Details of the loan facilities are disclosed in Note 14 to the financial statements.

There were no other significant changes in the state of affairs of the Company during the financial year.

Total shares on issue at 30 June 2016 are 240,660,001.

RESULTS

The Company incurred a loss of \$838,509 (restated 2015 loss of \$753,141) after income tax for the financial year.

DIRECTORS' REPORT

LIKELY DEVELOPMENTS

The Company will continue to pursue its principal activity of mineral exploration and continue to review and assess other acquisition and joint venture opportunities in the resource sector. Specifically, Audalia is seeking to advance the interim metallurgical testwork with a view to commencing a DFS at the flagship Medcalf Project in 2017.

Planned exploration and activities

The Company's near term objectives include:

Medcalf Project

- o Commence a Definitive Feasibility Study (DFS) once interim metallurgical testwork has been completed;
- o Upgrade the existing Mineral Resource to the Ore Reserve category;
- o Continue securing the necessary licences and approvals for the Project.

Gascoyne Project

- o Design and implement a drill programme.

MINERAL RESOURCES STATEMENT

The Company has a 100% equity interest in mineral resource estimate at its Medcalf Project, which is located 470km east of Perth.

At 30 June 2016, the Medcalf Project's mineral resource estimate stood at 31.8 Mt at 0.45% V₂O₅ for contained vanadium pentoxide contents of approximately 108,000 tonnes in the Indicated category and 35,000 tonnes in the Inferred category. This mineral resource estimate was prepared in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2012 Edition (JORC 2012).

The Company announced a significant upgrade in the JORC 2012 resource classification for its Medcalf Project to the market on 18 August 2014. This upgrade followed revision of the geological and mineralisation modelling in conjunction with updated and ongoing metallurgical extraction testwork. This compares to the maiden Inferred Resource of 28.5 Mt at 0.50% V₂O₅ for 142,862 tonnes contained vanadium pentoxide as announced in 2013 and included in the 2014 Annual Report.

The 'Checklist of Assessment and Reporting Criteria' was also provided with the technical report in line with the guidelines of the JORC Code (2012). The mineral resource has been interpolated within geological wireframe the using a 0.20% V₂O₅ lower cut and is tabulated below.

<i>Mineral Resources for the Medcalf Deposit - JORC 2012</i>				
Resource Category	Tonnes	V₂O₅ (%)	TiO₂ (%)	Cut-off V₂O₅ (%)
Measured	-			
Indicated	23.0	0.47	8.5	0.2
Inferred	8.8	0.40	8.1	0.2
TOTAL	31.8	0.45	8.4	0.2

The Company's independent mineral resource estimates were developed by Ravensgate.

Governance arrangements and internal controls

Mineral resources are estimated by suitably qualified independent consultants to Audalia in accordance with the requirements of the JORC Code, using industry standards and consultants' internal guidelines for the estimation and reporting of mineral resources. The mineral resource estimates included in the Company's 2016 Financial Report are reviewed by a suitably qualified competent person.

DIRECTORS' REPORT

Competent Person's Statement

The information in this report that relates to the Mineral Resource for the Medcalf Project is based on information compiled by Steven Hyland, who is a Principal Consultant of Ravensgate. Mr Hyland is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Hyland has had sufficient experience that is relevant to the style of mineralisation, type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 edition of the Australasian Code for Reporting of Exploration, Results, Mineral Resource and Ore Reserves (JORC Code 2012). Mr Hyland consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.

DIVIDENDS

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

ENVIRONMENTAL REGULATION

The Company's exploration and mining activities are governed by a range of environmental legislation and regulations including the *National Greenhouse and Energy Report Act 2007* and *Mining Act 1978*. As the Company is still in the development phase of its interests in exploration projects, Audalia is not yet subject to the public reporting requirements of environmental legislation and regulations. To the best of the directors' knowledge, the Company has adequate systems in place to ensure compliance with the requirements of the applicable environmental legislation and is not aware of any breach of those requirements during the financial year and up to the date of the Directors' Report.

EVENTS SUBSEQUENT TO REPORTING DATE

The Company announced on 8 August 2016 that it has successfully re-negotiated the terms of its borrowing facility to extent the repayment date from 20 March 2017 to 20 November 2018.

On 28 September 2016, the Company issue 143,297,433 fully paid ordinary shares pursuant to an entitlement issue to shareholders to raise \$1,432,974 in cash.

REMUNERATION REPORT (AUDITED)

The Remuneration Report, which has been audited, outlines the key management personnel remuneration arrangements for the Company, in accordance with the requirements of the *Corporations Act 2001* and its regulations.

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

In this report, the term "executive" refers to the executive directors of the Company.

(a) Key management personnel

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

Name	Position held
Dato Soo Kok Lim	Executive Chairman (resigned 25 August 2016)
Datuk Siew Swan Ong	Executive Director
Mr Brent Butler	Chief Executive Officer and Director
Mr Raymond Browning	Non-Executive Director (appointed 3 September 2015 resigned 30 June 2016)
Mr Xu (Geoffrey) Han	Non-Executive Director (appointed 30 June 2016)
Mr Andrew Kwa	Non-Executive Director (resigned 30 September 2015)

(b) Remuneration governance

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

DIRECTORS' REPORT

Further information on the Nomination and Remuneration Committee's role, responsibilities and membership is set out in the Company's corporate governance statement which can be found on the Company's website, in a section titled 'Corporate Governance': www.audalia.com.au/corporate/corporate-governance/.

(c) Use of remuneration consultants

The Nomination and Remuneration Committee did not engage the services of a remuneration consultant during the year.

(d) Remuneration policies and framework

(i) Principles of remuneration

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

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

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

(ii) Remuneration structure

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

(e) Non-executive director remuneration

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The aggregate remuneration for all non-executive directors, last voted upon by shareholders at the 2011 General Meeting, is not to exceed \$300,000 per annum. Directors' fees cover all main board activities and membership of committees.

Non-executive directors do not receive any retirement benefits, other than statutory superannuation, nor do they receive any performance related compensation. Level of non-executive directors' fees is as follows:

Name	Annual Fees
Mr Andrew Kwa	\$25,000
Mr Raymond Browning	\$25,000
Mr Xu Han	\$25,000
Mr Brent Butler ¹	\$30,000

1. Mr Brent Butler was appointed Chief Executive Officer on 14 April 2015. His remuneration as an executive director is disclosed in section (i) of this Remuneration Report. Mr Butler continues to receive this director's fee in addition to his remuneration as the Company's CEO.

(f) Executive remuneration

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

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

(i) Fixed remuneration

Fixed remuneration consists of base compensation (which is calculated on a total cost) as well as employer contributions to superannuation funds. Fixed remuneration is reviewed annually by the Nomination and Remuneration Committee. As described in (h), as it is not possible to evaluate the Company's financial performance using generally accepted measures such as profitability or total shareholder returns, remuneration considerations will have regard to achievement of strategic objectives, service criteria and share price.

DIRECTORS' REPORT

(f) Executive remuneration (continued)

As noted above, the Nomination and Remuneration Committee has access to external advice independent of management, if required.

(ii) Short-term incentive

The Company has not set any short-term incentives (**STI**) for key management personnel.

(iii) Long-term incentive

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

During the year, the CEO participated in LTI in the form of equity-settled remuneration which has been granted pursuant to the completion of certain performance conditions and after the Company obtained the necessary approval from shareholders. Further details are set out in (l) of this Remuneration Report.

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

(g) Voting and comments made at the Company's 2015 Annual General Meeting

The Remuneration Report for the 2015 financial year received positive shareholder support at the 2015 AGM with a vote of 100% in favour. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

(h) Consequences of performance on shareholder wealth

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

	2016 ³	2015 ²	2014 ¹	2013
Net loss for the year ⁴	\$838,509	\$753,141	\$402,942	\$288,724
Change in share price	(\$0.16)	\$0.10	(\$0.125)	\$0.04
Share price at beginning of the period	\$0.23	\$0.13	\$0.25	\$0.21
Share price at end of the period	\$0.07	\$0.23	\$0.13	\$0.25
Loss per share	0.35 cents	0.32 cents	0.23 cents	0.36 cents

- The Company issued a total of 150,000,000 shares during the 2014 financial year, on 27 September 2013 (12,000,000) and 12 November 2013 (138,000,000).
- The Company issued a total of 4,000,000 shares during the 2015 financial year, on 14 November 2014 (2,000,000) and 26 February 2015 (2,000,000).
- The Company issued a total of 6,500,000 shares during the 2016 financial year, on 23 November 2015 (2,500,000), on 24 December 2015 (2,000,000) and on 30 March 2016 (2,000,000).
- The net loss for the 30 June 2015 year has been restated to exclude the share based payment expense of \$269,317.

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

Given the Company's increasing level of activities in this period, the achievement of milestones since incorporation in 2010, levels of both non-executive and executive remuneration increased with effect from 4 July 2014, as disclosed in this Remuneration Report. The aggregate remuneration for non-executive directors has remained unchanged since voted upon by shareholders in January 2011.

(i) Employment and Consultancy Agreements

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

DIRECTORS' REPORT

(i) Employment and Consultancy Agreements (continued)

Dato Soo Kok Lim, Executive Chairman, had an employment agreement effective from 4 July 2011 with the Company (**EC Employment Agreement**). The EC Employment Agreement specifies the duties and obligations to be fulfilled by the Executive Chairman. The initial term of the EC Employment Agreement was 2 years but it has been renewed for a further term of 3 years with effect from 4 July 2013. Annual salary for Dato Lim for the initial period was \$20,000 per annum (exclusive of statutory superannuation) and from 4 July 2014, \$80,000 per annum (exclusive of statutory superannuation) under the EC Employment Agreement.

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

Datuk Siew Swan Ong, Executive Director, has an employment agreement effective from 4 July 2011 with the Company (**ED Employment Agreement**). The ED Employment Agreement specifies the duties and obligations to be fulfilled by the Executive Director. The initial term of the ED Employment Agreement was 2 years but it has been renewed for a further term of 3 years with effect from 4 July 2013. Datuk Ong's contract was renewed for a further 2 years to 4 July 2018. Annual salary for Datuk Ong for the initial period was \$20,000 per annum (exclusive of statutory superannuation) and from 4 July 2014, \$80,000 per annum (exclusive of statutory superannuation) under the ED Employment Agreement.

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

Mr Butler, CEO, has consultancy agreement effective from 14 April 2015 with the Company (**CEO Consultancy Agreement**). The CEO Consultancy Agreement specifies the duties and obligations to be fulfilled by the CEO. The initial term of the CEO Consultancy Agreement is 2 years with an option to further extend under mutually agreed terms between the Company and Mr Butler. The annual fee for Mr Butler is \$120,000 per annum (exclusive of GST) under the CEO Consultancy Agreement. Mr Butler's agreement also provides for the issue of 4,000,000 fully paid ordinary shares (**Shares**) in the Company upon the successful achievement of the agreed milestones as listed below:

- o 2,000,000 Shares upon the Company granting of Mining Lease Application M63/656; and
- o 2,000,000 Shares upon the completion and receipt of the pre-feasibility report on the Medcalf Project.

Each of the tranches of Shares will be held in escrow for a period of 2 years from their respective dates of issue. Further details are set out in (l) of this Remuneration Report.

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

Refer to Note 19 for details on the financial impact in future periods resulting from firm commitments arising from non-cancellable contracts for services with directors.

(j) Link between remuneration and performance

The Nomination and Remuneration Committee determines the Company's remuneration policy and structure to ensure it aligns with the Company's needs and meet remuneration principles set out in (d). Remuneration is not linked to performance using generally accepted measures such as profitability or total shareholder returns but linked to achievement of strategic objectives or service criteria aimed at advancing the goals set out to achieve project outcomes which the Board believes aligns with creation of positive shareholder value.

DIRECTORS' REPORT

(k) Remuneration expense of key management personnel

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

		Fixed Remuneration			Variable Remuneration		Total
		SHORT-TERM EMPLOYEE BENEFITS	POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS	LONG-TERM BENEFITS		
		Salary & fees \$	Superannuation benefits \$	Annual and Long Service Leave \$	Share based payments \$		
Directors							
Non-executive							
Mr A Kwa ¹	2016	-	5,708	-	-	-	5,708
	2015	22,831	2,169	-	-	-	25,000
Mr R Browning ²	2016	20,622	-	-	-	-	20,622
Mr X Han ³	2016	-	-	-	-	-	-
Executive							
Dato S K Lim	2016	80,000	7,600	8,727	-	-	96,327
	2015	80,000	7,600	25,853	-	-	113,453
Datuk S S Ong	2016	80,000	7,600	8,727	-	-	96,327
	2015	80,000	7,600	25,853	-	-	113,453
Mr B Butler	2016	150,000	-	-	630,683	-	780,683
	2015	55,000	-	-	269,317	-	324,317
Total	2016	330,622	20,908	17,454	630,683	-	999,667
	2015	237,831	17,369	51,706	269,317	-	576,223

1. Mr Kwa resigned in 30 September 2015.
2. Mr Browning was appointed on 3 September 2015 and resigned on 30 June 2016.
3. Mr Han was appointed on 30 June 2016.

Reconciliation of share based payments held by key management personnel:

		Balance at 1 July 2015 (number)	Initial measurement date ** (number)	Vested (number)	Forfeited (number)	Balance at 30 June 2016 Vested (number)	Balance at 30 June 2016 Unvested (number)
Executive							
Mr B Butler	2016	4,000,000	-	4,000,000	-	4,000,000	-
	2015	-	4,000,000	-	-	-	4,000,000

**The expense relating to the share base payment has been recognised over the period of service until the satisfaction of the performance hurdles occurred in the 2016 financial year. The shares are subject to an escrow period of 2 years from the date of issue.

(l) Share-based remuneration

The CEO achieved both of the hurdles in the 2016 financial year and received 2,000,000 fully paid ordinary shares (**Shares**) on 24 December 2015 and 2,000,000 Shares on 30 March 2016. The fair value of shares was remeasured at the grant date (being the 2015 AGM) when the Company received shareholder approved to issue the shares.

DIRECTORS' REPORT

(l) Share-based remuneration (continued)

The following table sets out the terms and conditions of CEO's Share based remuneration:

Agreement commencement (term)	Right to shares (Number)	Conditions for grant of shares		Ordinary shares on fulfilment of conditions (Number)
14 April 2015 (2 years)	2,000,000	Hurdle 1	Grant of mining lease application M63/656	2,000,000
14 April 2015 (2 years)	2,000,000	Hurdle 2	Completion and receipt of the pre-feasibility report on the Medcalf Project	2,000,000

Fair value of Share based remuneration

The fair value of the share based payments as at the grant date was \$0.225 (being market price of the shares at the date of the AGM where shareholder approval was received). The total number of shares issued under the agreement was 4,000,000 shares. The fair value of the remuneration is therefore \$900,000.

The valuation inputs of CEO Share based remuneration are as follows:

Grant date	Hurdle Completion date	Fair Value (\$)	Balance at start of the year (Number)	Cancelled (Number)	Converted during the year (Number)	Balance at end of the year (Number)	Fair Value at Grant date (\$)
27 Nov 2015	13 Nov 2015	0.225	-	-	2,000,000	2,000,000	450,000
27 Nov 2015	9 Mar 2016	0.225	-	-	2,000,000	2,000,000	450,000
Total			-	-	4,000,000	4,000,000	900,000

(m) Equity instruments held by key management personnel

The number of ordinary fully paid shares in the Company held directly and indirectly by directors and other key management personnel, and any movements during the period are set out below:

	Balance at 1 July 2015	Received as remuneration	Options Exercised	Net Changes Other	Balance at 30 June 2016
Directors					
<i>Non-Executive</i>					
Mr A Kwa ¹	250,000	-	-	(250,000)	-
Mr R Browning	-	-	-	-	-
Mr X Han	-	-	-	-	-
<i>Executive</i>					
Dato S K Lim ²	16,140,000	-	-	8470,333	24,610,333
Datuk S S Ong ³	16,900,000	-	-	8,300,000	25,200,000
Mr B Butler ⁴	530,000	4,000,000	-	(30,000)	4,500,000

1. Mr Kwa resigned on 30 September 2015 and held 250,000 shares at the date of his resignation.
2. Dato Lim purchased shares as part of an off-market transfer on 31 March 2016.
3. Datuk Ong purchased shares as part of an off-market transfer on 27 June 2016.
4. Mr Butler disposed on 30,000 shares as part of an off-market transfer on 25 November 2015. Mr Butler also received 2,000,000 shares on 24 December 2015 and 2,000,000 shares on 30 March 2016.

(n) Loans to key management personnel

There were no loans to key management personnel during the year.

DIRECTORS' REPORT

(o) Other transactions with key management personnel

There were no other transactions with key management personnel and related parties during the year other than reported below.

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. 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 year relating to key management personnel and their related parties were as follows:

Director/ Executive	Transaction	Transactions value year ended 30 June		Balance outstanding as at 30 June	
		2016 \$	2015 \$	2016 \$	2015 \$
Mr B Butler ¹	Consultancy fees	-	191,000	-	4,303
Mr R Browning ²	Consultancy fees	139,800	-	-	-

Notes in relation to the table of related party transactions

1. A company associated with Mr Butler, World Technical Services Group Pty Ltd, provided consulting services in connection with the Company's exploration projects in 2015. Terms for such services were based on market rates, and amounts were payable on a monthly basis.
2. Mr Browning was appointed on 3 September 2015. A company associated with Mr Browning, Trams Services Pty Ltd, provided consulting services in connection with the Company's exploration projects in 2016. Terms for such services were based on market rates, and amounts were payable on a monthly basis.

This concludes the Remuneration Report, which has been audited.

OPTIONS

Unissued shares under option

At the date of this report, there were no unissued ordinary shares of the Company under option.

No options have been granted since the end of the previous financial year.

INDEMNIFICATION AND INSURANCE OF OFFICERS

Indemnification

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

Insurance

The Company paid a premium, during the year in respect of a director and officer liability insurance policy, insuring the directors of the Company, the company secretary, and executive officers of the Company against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the director's and officers' liability and legal expenses' insurance contracts as such disclosure is prohibited under the terms of the contract.

INDEMNIFICATION AND INSURANCE OF AUDITORS

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

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

DIRECTORS' REPORT

PROCEEDINGS ON BEHALF OF THE COMPANY

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

NON-AUDIT SERVICES

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

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

	2016	2015
	\$	\$
BDO Corporate Finance (WA) Pty Ltd <i>Corporate Finance services</i>	-	12,240
BDO Corporate Tax (WA) Pty Ltd <i>Tax compliance services</i>	28,274	31,162
	28,274	31,162

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

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

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is set out on page 46 and forms part of the Directors' Report.

AUDITOR

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

Dated at Perth, Western Australia this 29th day of September 2016.

Signed in accordance with a resolution of the directors:



Brent Butler
CEO/ Executive Director

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 30 June 2016

	Note	2016 \$	RESTATED 2015 \$
Revenue from Continuing Operations			
Revenue	4	34,543	18,381
Exploration expenditure write off	11	-	(1,359)
Corporate and administrative expenses	5	(873,052)	(770,163)
		<hr/>	<hr/>
Loss before income tax		(838,509)	(753,141)
Income tax expense	6	-	-
		<hr/>	<hr/>
Net loss after income tax for the year		(838,509)	(753,141)
Other comprehensive income			
Items that will not be reclassified to profit or loss		-	-
Items that may be reclassified subsequently to profit or loss		-	-
		<hr/>	<hr/>
Other comprehensive income for the year, net of tax		-	-
		<hr/>	<hr/>
Total comprehensive loss for the year attributable to the owners of the Company		<u>(838,509)</u>	<u>(753,141)</u>
Loss per share attributable to the owners of the Company			
Basic loss per share (cents)	20	<u>(0.35)</u>	<u>(0.32)</u>

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 Profit or Loss and Other Comprehensive Income is to be read in conjunction with the accompanying notes. Refer Note 1(a)(v) for details of the restatement.

STATEMENT OF FINANCIAL POSITION
as at 30 June 2016

	Note	2016 \$	RESTATED 2015 \$
CURRENT ASSETS			
Cash and cash equivalents	7	882,660	2,660,781
Trade and other receivables	8	41,997	51,054
Other current assets	9	11,335	21,110
Total Current Assets		935,992	2,732,945
NON-CURRENT ASSETS			
Property, Plant & Equipment	10	33,471	40,737
Exploration and evaluation assets	11	7,907,786	4,713,317
Total Non-Current Assets		7,941,257	4,754,054
TOTAL ASSETS		8,877,249	7,486,999
CURRENT LIABILITIES			
Trade and other payables	12	888,235	495,539
Employee benefit obligations	13	70,774	14,092
Borrowings	14	3,625,000	3,000,000
Total Current Liabilities		4,584,009	3,509,631
NON-CURRENT LIABILITIES			
Employee benefit obligations	13	9,330	48,132
Total Non-Current Liabilities		9,330	48,132
TOTAL LIABILITIES		4,593,339	3,557,763
NET ASSETS		4,283,910	3,929,236
EQUITY			
Contributed equity	15	7,048,235	5,585,735
Reserves	16	10,000	279,317
Accumulated losses	18	(2,774,325)	(1,935,816)
TOTAL EQUITY		4,283,910	3,929,236

The Statement of Financial Position is to be read in conjunction with the accompanying notes. Refer Note 1(a)(v) for details of the restatement.

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2016

	Contributed Equity \$	Reserves \$	RESTATED Accumulated Losses \$	Total \$
Balance as at 1 July 2014	4,093,968	10,000	(1,182,675)	2,921,293
Prior period adjustment (Note 1(a)(v))	-	-	269,317	269,317
Previous recorded loss for the year	-	-	(1,022,458)	(1,022,458)
Total comprehensive loss for the year	-	-	(753,141)	(753,141)
<i>Transactions with equity holders in their capacity as equity holders:</i>				
Shares issued, net of costs	1,491,767	-	-	1,491,767
Share-based payments	-	269,317	-	269,317
Balance as at 30 June 2015	5,585,735	279,317	(1,935,816)	3,929,236
Balance as at 1 July 2015	5,585,735	279,317	(1,935,816)	3,929,236
Loss for the year	-	-	(838,509)	(838,509)
Total comprehensive loss for the year	-	-	(838,509)	(838,509)
<i>Transactions with equity holders in their capacity as equity holders:</i>				
Shares issued, net of costs	1,462,500	(269,317)	-	1,193,183
Share-based payments	-	-	-	-
Balance as at 30 June 2016	7,048,235	10,000	(2,774,325)	4,283,910

The Statement of Changes in Equity is to be read in conjunction with the accompanying notes. Refer Note 1(a)(v) for details of the restatement.

STATEMENT OF CASH FLOWS
for the year ended 30 June 2016

	Note	2016 \$	2015 \$
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of GST)		(389,697)	(483,046)
Interest received		36,919	16,214
Interest paid		(135)	(33,139)
Net cash (outflows) from operating activities	23	<u>(352,913)</u>	<u>(499,971)</u>
Cash flows from investing activities			
Payments for acquisition of property plant and equipment		(5,000)	(32,121)
Payments for exploration and evaluation assets – capitalised costs		(3,040,561)	(1,649,290)
Proceeds from R&D incentive for exploration and evaluation		995,353	-
Net cash (outflows) from investing activities		<u>(2,050,208)</u>	<u>(1,681,411)</u>
Cash flows from financing activities			
Proceeds from borrowings		-	3,700,000
Repayment of borrowings		-	(700,000)
Proceeds from issue of shares	14	625,000	1,500,000
Payment for share issue costs		-	(8,233)
Net cash inflows from financing activities		<u>625,000</u>	<u>4,491,767</u>
Net increase/(decrease) in cash held		(1,778,121)	2,310,385
Cash and cash equivalents at 1 July 2015		2,660,781	350,396
Cash and cash equivalents at 30 June 2016	7	<u><u>882,660</u></u>	<u><u>2,660,781</u></u>

The Statement of Cash Flows is to be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report of Audalia Resources Limited (the **Company** or **Audalia**) for the financial year ended 30 June 2016 was authorised by the board of directors for release on 29 September 2016.

The Company is a public company limited by shares incorporated and domiciled in Australia whose shares are traded on the Australian Securities Exchange.

The nature of the operations and principal activities of the Company are described in the Review of Activities.

(a) Basis of preparation

The principle accounting policies adopted for the preparation of financial statements are set out below. These accounting policies have been applied consistently to all periods presented and have been consistently applied by the Company to all the years presented unless otherwise stated.

(i) *Statement of compliance*

These general purpose financial statements have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Audalia is a for profit entity for the purpose of preparing the financial statements.

The financial statements of the Company also comply with the International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board (**IASB**).

(ii) *Basis of measurement*

The financial statements are prepared on the accruals basis and the historical cost basis except for financial assets and liabilities measured at fair value. The financial statements are presented in Australian dollars and all values are rounded to the nearest dollar unless otherwise stated.

(iii) *Going concern*

At 30 June 2016, the Company incurred a net loss after tax of \$838,509, net operating and investing cash outflows of \$2,403,121 and had \$882,660 in cash and cash equivalents. The Company continues to incur expenditure in exploring and evaluating its tenements, drawing on its cash balances.

The Company has prepared a cash flow forecast to meet minimum commitments for the next 12 months. Should the Company wish to progress its exploration and evaluation activities at a rate greater than the minimum requirements, the Company will require additional funding above the expected cash amounts expected to be received in the next 12 months. As the Company has not yet secured this additional funding, it may result in a material uncertainty that may cast a significant doubt about the company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business at amounts stated in the financial report.

The financial report has been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. The Directors consider there are reasonable grounds to believe that the Company will be able to continue as a going concern after consideration of the following factors:

- The Company has access to the use of cash reserves of \$882,660 as at 30 June 2016 (2015: \$2,660,781).
- The Company has access to a further \$375,000 under its loan facilities as at the date of this report.
- The Company has the ability to adjust its exploration expenditure subject to results of its exploration activities.
- The Company is expected to receive its R&D tax incentive refund during the next 6 months.
- The Company has completed an Entitlement Issue on a one (1) for one (1) basis to issue 143,297,433 shares at an issue price of \$0.01 per share to raise an amount of \$1,432,974.

The directors anticipate the support of its major shareholders and lenders and are confident in the Company's ability to raise an appropriate level of funding to execute its development plan and continue its exploration activities. This was demonstrated by the extension of the repayment date of the Loan Facilities of \$4 million from 20 March 2017 to 20 November 2018 on 8 August 2016.

The 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.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) *Significant accounting judgements, estimates and assumptions*

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

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

Exploration and evaluation expenditure

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

Deferred taxation

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

(v) *Re-statement of prior period, voluntary change in accounting policy – share based payments adjustment*

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 has since reassessed this policy (refer 1(j)) 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. The impact of this adjustment has been disclosed in notes 11 and note 18.

(b) Segment reporting

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

Operating segments have been identified based on the information provided to the chief operating decision makers, being the Board of Directors.

(c) Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Exploration and Evaluation Expenditure is assessed for impairment indicators under AASB 6 paragraph 20 and where there are indicators of impairment the Company will test for impairment. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

(e) Trade and other receivables

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

(f) Exploration and evaluation expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. The Company undertakes an assessment of impairment indicators at each reporting date to determine if the assets recoverable amount exceeds its carrying amount. Where there are research and development costs recouped through government incentives in relation to exploration and evaluation, these are netted against the carrying value of capitalised expenditure incurred in respect of the identifiable project or area of interest where practicable. Events may occur or information may come to hand after the issue of this report which may materially alter the carrying value of this asset. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made. When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits.

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

(g) Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company. Trade accounts payable are normally settled within 60 days. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(h) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between proceeds (net of transaction costs) and the redemption amount is recognised in profit and loss over the period of borrowings using the effective interest method. Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash asset transferred or liabilities assumed, is recognised in profit and loss as other income or finance costs. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

(i) Employee benefits

Liabilities for wages and salaries including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related services are recognised in respect of employee's services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Employee benefits (continued)

The liabilities are presented as current employee benefit obligations in the statement of financial position. Liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are measured as present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Re-measurements as a result of adjustments and changes are recognised in profit and loss. The obligations are presented as current liabilities in the statement of financial position if the Company does not have an unconditional right to defer settlement for at least 12 months after the reporting period, regardless of when the actual settlement is expected to occur.

(j) Share based payments

Share based compensation benefits are provided to a key management personnel and a consultant. Information relating to the share based payments are set out in Note 17. Fair value of share based payments are recognised based on the nature of the underlying transaction to which the share based payment relates with a corresponding increase in equity. The fair value recognised is determined by reference to the market value of the securities at grant date and is recognised over the period from commencement of the service contract to the date the securities vest with the recipient.

(k) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(l) Revenue recognition

Revenue is measured at fair value of consideration received or receivable. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and can be reliably measured. Amounts disclosed as revenue represent interest received. Interest income is recognised as it accrues.

(m) Leases

Operating lease payments are recognised as an expense in the Statement of Profit or Loss and Other Comprehensive Income on a straight-line basis over the lease term.

(n) Income tax

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- (a) except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (b) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- (a) except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (b) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Income tax (continued)

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement. The Company has unused tax losses. However, no deferred tax balances have been recognised, as it is considered that asset recognition criteria have not been met at this time.

(o) Goods and services tax ("GST")

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

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

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

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

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

(p) Loss per share

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

(q) Property, plant and equipment

Property plant and equipment are measured on the cost basis less accumulated depreciation. Costs may include expenditure directly attributable to acquisition of the items. Subsequent costs are included in the assets' carrying value or recognised as separate assets, as appropriate only when probable future economic benefits associated with the item will flow to the Company and costs can be reliably measured. The carrying amount of property, plant and equipment is reviewed annually to ensure they are not stated in excess of recoverable amounts.

Depreciation rates used for each class of asset is as follows:

<i>Class of fixed asset</i>	<i>rate</i>
Furniture and fittings	10% straight line
Office equipment	25% - 33 % straight line
Leasehold improvements	33% straight line

Assets residual values and useful lives are reviewed, adjusted if appropriate at the end of each reporting period. Gains and losses are determined by comparing proceeds with carrying amount. These gains and losses are included in profit and loss.

Assets which are used for exploration and evaluation activities are depreciated over its useful life, reflecting the extent to which the assets have been consumed. The depreciation is added to the intangible exploration and evaluation asset balance and accumulated in respect of each identifiable area of interest, as described in accounting policy note (f).

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Provisions

Provisions for legal claims are recognised when the Company has a present legal obligation as a result of past events. It is probable that an outflow of resource will be required to settle the obligation and the amount can be reliably measured. Provisions are not recognised for future operating losses. Provisions are measured at the present value of management's best estimate of the expenses required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessment of the time value of money and risks specific to the liability. The increase in provision due to the passage of time is recognised as interest expense.

(s) Tax incentives

The Company may be entitled to claim special tax deductions for investments in qualifying expenditure (e.g. Research and Development Tax Incentive Scheme in Australia). The group accounts for such allowances on the same basis as the relevant expenditure. If the expenditure is expensed in the income statement the tax incentive will be recorded in the profit and loss. If the expenditure is capitalised to an asset, the tax incentive will reduce the carrying value of the asset.

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

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

Title and Reference	Nature of Change	Application date for entity
AASB 15 Revenue from contracts with customers	<p>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.</p> <p>The entity is yet to derive revenue therefore the standard does not yet apply.</p>	1 July 2018
AASB 16 (issued February 2016) Leases	<p>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.</p> <p>There are some optional exemptions for leases with a period of 12 months or less and for low value leases.</p> <p>Lessor accounting remains largely unchanged from AASB 117.</p> <p>The entity has not yet made a detailed assessment of the impact of this standard as at this stage.</p>	1 Jan 2019
Amendments to AASB 101 (AASB 2015-2) Disclosure Initiative	<p>The amendments clarify a number of presentation issues and highlight that preparers are permitted to tailor the format and presentation of the financial statements to their circumstances and the needs of users.</p> <p>The entity has undertaken a preliminary assessment of the changes to the presentation standard and does not believe there will be significant changes to the financial statements.</p>	1 Jan 2016

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

2. FINANCIAL RISK MANAGEMENT

Overview

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

- market risk
- credit risk
- liquidity risk

This note presents information about the Company's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

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

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

Financial risk management objectives

The overall financial risk management strategy focuses on the unpredictability of the 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 30 June:

	2016 \$	2015 \$
Financial assets		
Cash and cash equivalents	882,660	2,660,781
Trade and other receivables	35,115	32,520
	917,775	2,693,301
Financial liabilities		
Trade and other payables	(856,052)	(479,565)
Borrowings	(3,625,000)	(3,000,000)
	(4,481,052)	3,479,565

Market risk

Market risk is the risk that changes in market prices, such as interest rates and commodity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return. There were no changes in the Company's market risk management policies from previous years.

Interest rate risk

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

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

	2016 \$	2015 \$
<i>Variable rate instruments</i>		
Cash at bank	866,982	1,645,581
<i>Fixed rate instruments</i>		
Bank term deposits	15,478	1,015,000
	882,460	2,660,581

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

2. FINANCIAL RISK MANAGEMENT (continued)

Cash flow sensitivity analysis for variable rate instruments

Based on cash balances held at variable rates as at 30 June 2016, a change of 25 basis points in interest rates would have increased or decreased the Company's loss by \$2,207 (2015: \$1,652 at 25 basis points). The Board assessed a 25 basis point movement as being reasonably possible based on recent RBA and press reports, whereby a movement of this magnitude is possible over the next 12 months. This analysis assumes that all other variables remain constant.

Other market price risk

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

The Company operates within Australia and all transactions during the financial year are denominated in Australian dollars. The Company is not exposed to foreign currency risk at the end of the reporting period.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash and cash equivalents. There were no changes in the Company's credit risk management policies from previous years.

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

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit rating (Standard & Poor's) if available or to historical information about counterparty default rates:

	2016	2015
	\$	\$
Cash at bank and short-term bank deposits A-1+ ¹	882,660	2,660,781
Trade and other receivables A-1+ ² No external rating ²	30,144 4,971	32,520 -
	35,115	32,520

1. The equivalent S&P rating of the financial assets represents that rating of the counterparty with whom the financial asset is held rather than the rating of the financial asset itself.
2. Trade and other receivables consist of amounts receivable from a private entity.

Allowance for impairment loss

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

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

Liquidity risk

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

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

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2016

2. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

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

30 June 2016	Carrying amount	Contractual cash flows	Less than 1 year ¹	2-5 years	>5 years
Trade and other payables ²	888,235	888,235	888,235		
Borrowings	3,625,000	3,833,164	3,833,164	-	-
	4,516,235	4,721,399	4,721,399		

30 June 2015	Carrying amount	Contractual cash flows	Less than 1 year	2-5 years	>5 years
Trade and other payables ²	479,565	479,565	479,565		
Borrowings	3,000,000	3,000,000	3,000,000	-	-
Total	3,479,565	3,479,565	3,479,565		

1. Refer to subsequent events note 24 for extension of loan repayment date to 20 November 2018.
2. Trade and other payables includes an amount of accrued interest on the borrowings of \$320,438 (2016) and \$46,904 (2015).

Fair value of financial instruments

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 financial assets and financial liabilities recorded in the financial statements approximate their fair values due to their short term maturity.

Capital management

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

The Board is constantly adjusting the capital structure to take advantage of favourable costs of capital. As the market is constantly changing, the Board may issue new shares or sell assets to reduce debt and operating expenditure.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position although there is no formal policy regarding gearing levels.

The Company has no formal financing and gearing policy or criteria during the year. The Board makes a periodic assessment of its capital requirements and has taken advantage of low cost of capital in debt markets during the year at a time when it believes capital through equity raising would be less attractive.

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

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2016

	2016	2015
	\$	\$
3. AUDITOR'S REMUNERATION		
During the year the following fees were paid or payable for services provided by the auditor of the Company and its related entities :		
Audit Services		
<i>BDO Audit (WA) Pty Ltd</i>		
- audit of financial report	27,212	32,049
Other Services		
<i>BDO Corporate Tax (WA) Pty Ltd</i>		
- Tax compliance	7,008	9,180
- Tax compliance - R&D incentive	21,265	21,982
<i>BDO Corporate Finance (WA) Pty Ltd</i>	-	12,240
	55,485	75,451
4. REVENUE	2016	2015
	\$	\$
Revenue from continuing operations		
Interest income	34,543	18,381
	34,543	18,381
5. EXPENSES		
Corporate and administrative expenses		
Personnel expenses		
Director fees and employees expenses	204,695	250,773
Superannuation and leave	37,326	20,973
	242,021	271,746
Depreciation	4,078	3,261
Other expenses		
Accounting, Annual report, tax and secretarial fees	148,312	134,344
Audit expenses	27,212	32,049
Consultancy fees	28,274	34,222
Interest expenses	273,670	80,044
Insurance expenses	17,029	16,589
Legal expenses	1,099	450
Regulatory fees	35,077	38,152
Operating lease expenses	65,000	65,000
Other expenses	31,280	94,306
	626,953	495,156
Total corporate and administration expenses	873,052	770,163

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2016

	2016	2015
	\$	\$
6. INCOME TAX		
(a) Income tax expense	-	-
(b) Numerical reconciliation between tax expense and pre-tax net loss		
Loss before income tax expense	(838,509)	(753,141)
Income tax benefit calculated at rates noted in (d) below	(238,975)	(225,942)
Effect of non-deductible item – entertainment/other	-	-
Increase in deferred tax balances not brought to account	238,975	225,942
Income tax expense	-	-
(c) Deferred tax assets not brought to account		
- Carry forward tax losses	2,038,761	1,554,749
- Capital raising costs	2,244	4,933
- Provisions and accruals	240,943	111,547
Potential at 28.5% (2016)	2,281,948	1,671,229

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.

Deferred tax liabilities at 28.5%		
- Prepayments	1,687	7,958
- Interest receivable	55	771
- Exploration and evaluation costs	2,253,719	1,333,200
	2,255,461	1,341,929

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

(d) Tax Rates

The potential tax benefit in respect of tax losses not brought into account has been calculated at 28.5%. (2015: 30%)

7. CASH AND CASH EQUIVALENTS

Cash at bank and in hand	867,182	1,645,781
Term deposit	15,478	1,015,000
	882,660	2,660,781

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 2.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2016

	2016 \$	2015 \$
8. TRADE AND OTHER RECEIVABLES		
Current		
GST receivable	6,881	18,534
Interest receivable	195	2,570
Security deposit	29,950	29,950
Other receivable	4,971	-
	41,997	51,054

There were no receivables past due but not impaired. Due to the short term nature of the current receivables, their carrying amounts approximate their fair value. The Company's exposure to credit risk related to trade and other receivables is disclosed in Note 2.

9. OTHER ASSETS

Current

Prepaid rent	5,417	5,417
Prepaid insurance	5,918	6,106
Prepayment on licences	-	9,587
	11,335	21,110

10. PROPERTY PLANT AND EQUIPMENT

Non-Current

Furniture and fittings - Cost	8,515	8,515
Accumulated Depreciation	(1,900)	(1,048)
Total Furniture and fittings	6,615	7,467
Office / Site equipment - Cost	43,875	38,875
Accumulated Depreciation	(17,159)	(5,957)
Total Office Equipment	26,716	32,918
Leasehold Improvements	635	635
Accumulated Depreciation	(495)	(283)
Total Leasehold Improvements	140	352
Total Property Plant and Equipment	33,471	40,737

A reconciliation of the carrying amounts of each class of property, plant and equipment at the beginning and at the end of the current period:

	Furniture and Fittings \$	Office/Site Equipment \$	Leasehold Improvements \$	Total \$
2016				
Opening net book value at 1 July 2015	7,467	32,918	352	40,737
Additions during the year	-	5,000	-	5,000
Disposals during the year	-	-	-	-
Depreciation expense	(756)	(3,110)	(212)	(4,078)
Depreciation allocated to E&E	(96)	(8,092)	-	(8,188)
Closing net book value at 30 June 2016	6,615	26,716	140	33,471

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2016

10. PROPERTY PLANT AND EQUIPMENT (continued)

	Furniture and Fittings \$	Office Equipment \$	Leasehold Improvements \$	Total \$
2015				
Opening net book value at 1 July 2014	7,303	7,214	564	15,081
Additions during the year	960	31,160	-	32,120
Disposals during the year	-	-	-	-
Depreciation expense	(756)	(2,293)	(212)	(3,261)
Depreciation allocated to E&E	(40)	(3,163)	-	(3,203)
Closing net book value at 30 June 2015	7,467	32,918	352	40,737

	2016 \$	RESTATED 2015 \$
11. EXPLORATION AND EVALUATION ASSETS		
Exploration, evaluation and development costs carried forward in respect of areas of interest	7,907,786	4,713,317
<i>Reconciliation</i>		
Carrying amount at beginning of the year	4,713,317	2,711,384
Prior period adjustment (refer note 1(a)(v) and note 18)	-	269,317
Exploration and evaluation	4,189,822	1,733,975
Exploration write – off	-	(1,359)
R&D incentive rebate (Medcalf Project)	(995,353)	-
Carrying amount at end of the year	7,907,786	4,713,317

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. The Company issued a total of 6,500,000 shares during the period which resulted in a non-cash movement of \$1,193,183 in the carrying value of the asset. Refer note 17 for details.

12. TRADE AND OTHER PAYABLES

Trade creditors	121,915	168,012
Other creditors and accruals	766,320	327,527
	888,235	495,539

Due to the short term nature, the carrying amount of trade and other payables approximates their fair value. The Company's exposure to credit and liquidity risks related to trade and other payables are disclosed in Note 2.

13. EMPLOYEE BENEFIT OBLIGATIONS

Annual leave – current	70,774	14,092
<i>Reconciliation</i>		
Balance brought forward	14,092	4,114
Movement during the year	14,520	9,978
Transfers from non-current	42,162	-
Balance carrying forward	70,774	14,092
Annual and Long Service leave – non-current	9,330	48,132
<i>Reconciliation</i>		
Balance brought forward	48,132	7,002
Movement during the year	3,360	-
Transfers to current	(42,162)	41,130
Balance carrying forward	9,330	48,132

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2016

14. BORROWINGS	2016 \$	2015 \$
Unsecured loan facilities - current	3,625,000	3,000,000
	3,625,000	3,000,000

Unsecured loan

On 24 March 2015, the Company secured loan facilities of \$4,000,000. The loan is unsecured and is used to advance its Medcalf pre-feasibility study and additional working capital. As at the date of this report, \$3,625,000 facility has been drawn down and the repayment date was 20 March 2017. Loan amount and interest which accrues daily at 8% pa is repayable on repayment date. Subsequent to year end the period of the loan was extended to 20 November 2018 (refer to subsequent events note 24).

15. CONTRIBUTED EQUITY

240,660,001 fully paid ordinary shares (30 June 2015: 234,160,001)	7,048,235	5,585,735
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(a) Ordinary shares

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

	2016 Number	2015 Number	2016 \$	2015 \$
Balance at beginning of year	234,160,001	230,160,001	5,585,735	4,093,968
Share placement on 26 February 2015		2,000,000		750,000
Share placement on 14 November 2014		2,000,000		750,000
Consultant on 23 November 2015	2,500,000		562,500	
CEO Tranche 1 on 24 December 2015	2,000,000		450,000	
CEO Tranche 2 on 30 March 2016	2,000,000		450,000	
Share issue costs			-	(8,233)
Balance at the end of the year	240,660,001	234,160,001	7,048,235	5,585,735

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

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

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

(b) Options

At reporting date, the Company does not have any options to acquire ordinary shares issued.

No options were granted during the year.

These options do not entitle the holder to participate in any share issue of the Company or any other entity.

(c) Capital management

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2016

16. RESERVES	2016 \$	2015 \$
Share based payment reserve	-	269,317
Option premium reserve	10,000	10,000
	10,000	279,317

Share based payment reserve

The share based payments reserve is used to recognise the value of equity-settled share based payments provided to employees and consultants as part of their remuneration. Refer to Note 17 for further details.

Option premium reserve

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

17. SHARE BASED PAYMENTS

The Company entered into an agreement with the CEO to issue a number of shares subject to achieving certain milestones within the period of the employment agreement. The terms and conditions provided that the rights to shares would vest upon achieving the hurdles set out in the agreement and would automatically convert into fully paid ordinary shares (subject to obtaining the necessary shareholder approval) and would be held in escrow for 2 years from the date of issue of the shares. Summary of the material terms of agreement is set out below:

Agreement commencement/ (term)	Right to shares (Number)	Conditions for grant of shares	Ordinary shares on fulfilment of conditions (Number)
14 April 2015 (2 years)	2,000,000	Hurdle 1: Grant of mining lease application M63/656	2,000,000
14 April 2015 (2 years)	2,000,000	Hurdle 2: Completion and receipt of the pre-feasibility report on the Medcalf Project	2,000,000

Fair value of Share based payments are determined with reference to the share price at the date of commencement of services and recognised over the period from commencement of the service contract to when the milestones are achieved.

The valuation of Share based payments was undertaken using the following inputs:

Grant date	Hurdle Completion date	Fair Value (\$)	Balance at start of the year (Number)	Cancelled (Number)	Converted during the year (Number)	Balance at end of the year (Number)	Fair value at grant date (\$)
14 Nov 2015	13 Nov 2015	0.225	-	-	2,000,000	2,000,000	450,000
14 Nov 2015	9 Mar 2016	0.225	-	-	2,000,000	2,000,000	450,000
Total			-	-	4,000,000	4,000,000	900,000

Fair value of Share based remuneration

The fair value of the share based payments as at the grant date was \$0.225 (being market price of the shares at the date of the AGM where shareholder approval was received). The total number of shares issued under the agreement was 4,000,000 shares. The fair value of the remuneration is therefore \$900,000.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2016

17. SHARE BASED PAYMENT (continued)

The Company also entered into an agreement with a consultant where shares may be granted on achievement of a hurdle.

The following table sets out the terms and conditions of the consultant's agreement.

Agreement commencement / (term)	Right to shares (Number)	Conditions for grant of shares	Ordinary shares on fulfilment of conditions (Number)
12 Sept 2014 (12 months)	2,500,000	Hurdle : Upon signing the Indigenous Land Use Agreement within 8 months of the date of agreement	2,500,000

The fair value of share based payments are determined with reference to the share price at the date of the completion of the milestone. The valuation of share based payments was undertaken using the following inputs:

Grant date	Hurdle Completion date	Fair Value (\$)	Balance at start of the year (Number)	Cancelled (Number)	Converted during the year (Number)	Balance at end of the year (Number)	Fair value at grant date (\$)
23 Nov 2015	13 Nov 2015	0.225	-	-	2,500,000	2,500,000	562.500
Total			-	-	2,500,000	2,500,000	562,500

Fair value of share based remuneration

The fair value of the share based payments as at the grant date was \$0.225 (being market price of the shares at that date). The total number of shares issued under the agreement was 2,500,000 shares. The fair value of the share based payment expense is therefore \$562,500.

Total amount recognised as a cost of the exploration asset was as follows:

	2016	2015
	\$	\$
Share based expense / remuneration	1,193,183	269,317
	1,193,183	269,317

18. ACCUMULATED LOSSES

	2016	RESTATED 2015
	\$	\$
Accumulated losses at the beginning of the year	1,935,816	1,182,675
Net loss for the year	838,509	1,022,458
Prior period adjustment *	-	(269,317)
Accumulated losses at the end of the year	2,774,325	1,935,816

* Refer to note 1 (a) (v) for commentary on the prior period adjustment.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2016

19. COMMITMENTS AND CONTINGENCIES (continued)

Operating lease commitments

The Company has entered into a commercial lease on its office in West Perth, Western Australia. The lease is 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 which is now subject to a rolling 1-month extension.

Future minimum rentals payable under the above non-cancellable operating leases as at 30 June are as follows:

	2016 \$	2015 \$
Within one year	63,667	78,220
After one year but not more than five years	-	40,719
	<u>63,667</u>	<u>118,939</u>

Remuneration commitments

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

	2016	2015
Within one year	100,000	295,200
After one year but not more than five years	-	95,000
	<u>100,000</u>	<u>390,200</u>

As at the date of this report the only agreement that had not expired was the CEO consultancy agreement.

Exploration commitments

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

Within one year	290,947	252,194
After one year but not more than five years	1,461,300	1,376,400
Over five years	2,592,800	-
	<u>4,345,047</u>	<u>1,628,594</u>

Contingencies

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

20. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic loss per share at 30 June 2016 was based on the following:

	2016 \$	RESTATED 2015 \$
Loss attributable to ordinary shareholders		
Net loss for the year	(838,509)	(753,141)
Weighted average number of ordinary shares	Number	Number
Weighted average number of ordinary shares used as denominator in calculating loss per share	237,224,385	232,105,206
	<u>237,224,385</u>	<u>232,105,206</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2016

21. SEGMENT REPORTING

The Board has determined that the Company has two reportable segments, being Mineral Exploration and Corporate and Administrative.

30 June 2016	Mineral Exploration \$	Corporate and administrative \$	Company \$
Segment revenue	-	-	<u>-</u>
Income / (Expenses)			
Interest income	-	34,543	34,543
Interest expense	-	(273,670)	(273,670)
Depreciation	-	(4,078)	(4,078)
Share based payment expense	-	-	-
Segment result	-	(838,509)	<u>(838,509)</u>
Segment assets	7,907,786	969,463	<u>8,877,249</u>
Segment liabilities	(120,726)	(4,472,613)	<u>(4,593,339)</u>
	RESTATED Mineral Exploration \$	RESTATED Corporate and administrative \$	RESTATED Company \$
30 June 2015			
Segment revenue	-	-	<u>-</u>
Income / (Expenses)			
Interest income	-	18,381	18,381
Interest expense	-	(80,044)	(80,044)
Depreciation	-	(3,261)	(3,261)
Segment result	-	(753,141)	<u>(753,141)</u>
Segment assets	4,713,317	2,773,682	<u>7,486,999</u>
Segment liabilities	(181,658)	(3,376,105)	<u>(3,557,763)</u>
		2016 \$	2015 \$
Reconciliation of Loss			
Total segment loss before income tax		(838,509)	(753,141)
Total loss before income tax expense		(838,509)	(753,141)
Reconciliation of assets and liabilities			
Total segment assets		8,877,249	7,486,999
Total assets		8,877,249	7,486,999
Total segment liabilities		(4,593,339)	(3,557,763)
Total liabilities		(4,593,339)	(3,557,763)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2016

22. RELATED PARTY TRANSACTIONS

(a) Key management personnel compensation

	2016	2015
	\$	\$
Short-term employee benefits	330,622	237,831
Post-employment benefits	20,908	17,369
Long term benefits	17,454	51,706
Share based remuneration	630,683	269,317
Total compensation	999,667	576,223

Further details on share based payments are in Note 17. Detailed remuneration disclosures are provided in the Remuneration Report in the Directors' Report.

(b) Other transactions with key management personnel

A key management person, hold position in another entity that result in that personnel having control or significant influence over the financial or operating policies of that entity.

An entity transacted with the Company during the 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 year relating to key management personnel and their related parties were as follows:

Director/ Executive	Transaction	Transactions value year ended 30 June		Balance outstanding as at 30 June	
		2016	2015	2016	2015
		\$	\$	\$	\$
Mr B Butler	Consultancy fees ¹	-	191,000	-	4,303
Mr R Browning	Consultancy fees ²	139,800	-	-	-

1. A company associated with Mr Butler, World Technical Services Group Pty Ltd, provided consulting services in connection with the Company's exploration projects. Terms for such services were based on market rates, and amounts were payable on a monthly basis.
2. 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.

23. RECONCILIATION OF CASH FLOWS USED IN OPERATING ACTIVITIES	2016	RESTATED 2015
	\$	\$
(a) Cash flows from operating activities		
Loss for the year	(838,509)	(753,141)
Adjustments for:		
Depreciation	4,078	3,261
Exploration write -off	-	1,359
Operating loss before changes in working capital and provisions	(834,431)	(748,521)
Change in trade and other receivables	9,032	(23,817)
Change in other assets	188	(2,413)
Change in trade and other payables	454,418	223,673
Change in provisions	17,880	51,107
Net cash (outflow) from operating activities	(352,913)	(499,971)

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30 June 2016

(b) Non-cash investing and financing activities

The Company has issued three separate tranches of shares in satisfaction of employees and consultants achieving their respective milestones during this year. Further information can be found in Note 17 above.

24. EVENTS SUBSEQUENT TO REPORTING DATE

On 8 August 2016, the Company negotiated the extension of the repayment date of its loan facilities of A\$4 million from 20 March 2017 to 20 November 2018.

On 28 September 2016, the Company issued 143,297,433 fully paid ordinary shares pursuant to an entitlement issue to shareholders to raise \$1,432,974 in cash.

DIRECTORS' DECLARATION

In the opinion of the directors of Audalia Resources Limited:

- (a) the financial statements and notes set out on pages 19 to 42, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's financial position as at 30 June 2016 and of its performance, for the financial year ended on that date; and
 - (ii) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (b) the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board; and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations from the Executive Director and Chief Executive Officer required by section 295A of the *Corporations Act 2001* for the year ended 30 June 2016. In accordance with section 295A, the Executive Director and Chief Executive Officer declared that:

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

Dated at Perth, Western Australia this 29th day of September 2016.

Signed in accordance with a resolution of the directors.



Brent Butler
Executive Director

INDEPENDENT AUDITOR'S REPORT

To the members of Audalia Resources Limited

Report on the Financial Report

We have audited the accompanying financial report of Audalia Resources Limited, which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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



Opinion

In our opinion:

- (a) the financial report of Audalia Resources Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1(a)(iii) in the financial report which describes the 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.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 17 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Audalia Resources Limited for the year ended 30 June 2016 complies with section 300A of the Corporations Act 2001.

BDO Audit (WA) Pty Ltd

A handwritten signature in blue ink, appearing to read 'J Prue', is written over a faint, light blue BDO logo.

Jarrad Prue

Director

Perth, 29 September 2016

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

As lead auditor of Audalia Resources Limited for the year ended 30 June 2016, 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 audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.



Jarrad Prue

Director

BDO Audit (WA) Pty Ltd

Perth, 29 September 2016

SHAREHOLDER INFORMATION

Details of shares as at 18 October 2016:

Top holders

The 20 largest registered holders of each class of quoted security as at 18 October 2016 were:

Fully paid ordinary shares

	Name	No. of Shares	%
1.	SIEW SWAN ONG	48,100,000	12.53%
2.	TLM HOLDINGS (M) SDN BHD	48,000,000	12.50%
3.	MUHAMMAD IKMAL OPAT ABDULLAH	41,000,000	10.68%
4.	YEK YEK ONG	37,500,000	9.77%
5.	MING HWAI TAN	37,500,000	9.77%
6.	POO LIAN TAN	24,500,000	6.38%
7.	SOO KOK LIM	23,470,333	6.11%
8.	MR SCOTT LIAN HING LIM	18,750,000	4.88%
9.	MR SEAN LIAN SIONG LIM	18,750,000	4.88%
10.	LI YI PHANG	17,500,000	4.56%
11.	CME GROUP BERHAD	11,600,000	3.02%
12.	MEGAN HOLDINGS PTY LTD	9,000,000	2.34%
13.	MS MOI MOI CHUA	8,833,336	2.30%
14.	MS NICOLA LIAN LI LIM	7,010,000	1.83%
15.	MOI MOI CHUA	5,833,338	1.52%
16.	CHAI KEONG LOH	2,350,000	0.61%
17.	BENG HONG TAN	2,160,000	0.56%
18.	MR CHAO YONG LEE	2,140,000	0.56%
19.	INDIGENOUS SERVICES AUSTRALIA	2,114,000	0.55%
20.	SEOW PANG NG	1,333,332	0.35%
		367,444,339	95.70%

Distribution schedules

A distribution schedule of each class of equity security as at 18 October 2016 were:

Fully paid ordinary shares

Range	Holders	Units	%
1 - 1,000	2	2	0
1,001 - 5,000	4	14,356	0
5,001 - 10,000	199	1,987,000	0.52%
10,001 - 100,000	28	916,443	0.24%
100,001 - Over	42	381,039,633	99.24%
Total	275	383,957,434	100.00

Substantial shareholders

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

Substantial shareholder	Number of Shares
Siew Swan Ong	25,200,000
Soo Kok Lim	24,610,333
Li Yi Phang	22,750,000

SHAREHOLDER INFORMATION

Restricted Securities

As at 18 October 2016, the Company had no restricted securities on issue.

Unmarketable parcels

Holdings less than a marketable parcel of ordinary shares (being 18,519 as at 18 October 2016):

Holders	Units
209	2,049,340

Voting Rights

The voting rights attaching to ordinary shares are:

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

On-Market Buy Back

There is no current on-market buy-back.

CORPORATE GOVERNANCE

GOVERNANCE

The Board of Directors is responsible for the operational and financial performance of the Company, including its corporate governance. The Company believes that the adoption of good corporate governance adds value to stakeholders and enhances investor confidence.

Audalia's corporate governance statement is available on the Company's website, in a section titled 'Corporate Governance': www.audalia.com.au/corporate/corporate-governance/.

SUMMARY OF TENEMENTS

Summary of tenements as 18 October 2016

Projects	Licence Number	Area (km ²)	Registered Holder / Applicant	Status	Audalia Interest
Western Australia	Gascoyne	E09/1568	Audalia Resources Limited	Granted	100%
		E09/1569	Audalia Resources Limited	Granted	100%
		E09/1570	Audalia Resources Limited	Granted	100%
		E09/1824	Audalia Resources Limited	Granted	100%
		E09/1825	Audalia Resources Limited	Granted	100%
		E09/2102	Audalia Resources Limited	Granted	100%
	Medcalf	P63/1528	Audalia Resources Limited	Granted	100%
		P63/1560	Audalia Resources Limited	Granted	100%
		P63/1561	Audalia Resources Limited	Granted	100%
		E63/1133	Audalia Resources Limited	Granted	100%
		E63/1134	Audalia Resources Limited	Granted	100%
		M63/656	Audalia Resources Limited	Granted	100%