



ACN 146 035 690

2017 ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017

CORPORATE DIRECTORY

DIRECTORS

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

PRINCIPAL PLACE OF BUSINESS AND REGISTERED OFFICE

Level 1, Office F
1139 Hay Street
WEST PERTH WA 6005
Telephone: (61 8) 9321 0715
Facsimile: (61 8) 9321 0721
Email: admin@audalia.com.au
Website: www.audalia.com.au

SHARE REGISTRY

Advanced Share Registry Limited
110 Stirling Highway
NEDLANDS WA 6009
PO Box 1156
NEDLANDS WA 6909
Telephone: (61 8) 9389 8033
Facsimile: (61 8) 9262 3723

AUDITOR

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

COMPANY SECRETARY

Ms Karen Logan

SECURITIES EXCHANGE

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

ASX Code: ACP

BANKER

National Australia Bank
1/1238 Hay Street
WEST PERTH WA 6005

CONTENTS

Corporate Directory	1
Review of Activities	3
Directors' Report	7
Auditor's Independence Declaration	20
Financial Report	21
Directors' Declaration	51
Independent Auditor's Report	52
Shareholder Information	56
Summary of Tenements	58

REVIEW OF ACTIVITIES

Audalia Resources Limited (ASX: **ACP**) is pleased to present its annual report for the year ended 30 June 2017 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 Project is a vanadium-titanium-iron project located some 470 kilometres south east of Perth near Lake Johnston, Western Australia. The Medcalf Project comprises two granted exploration licences E63/1133 and E63/1134 as well as mining lease M63/656. Together these licences covering a total area of 24 km².

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

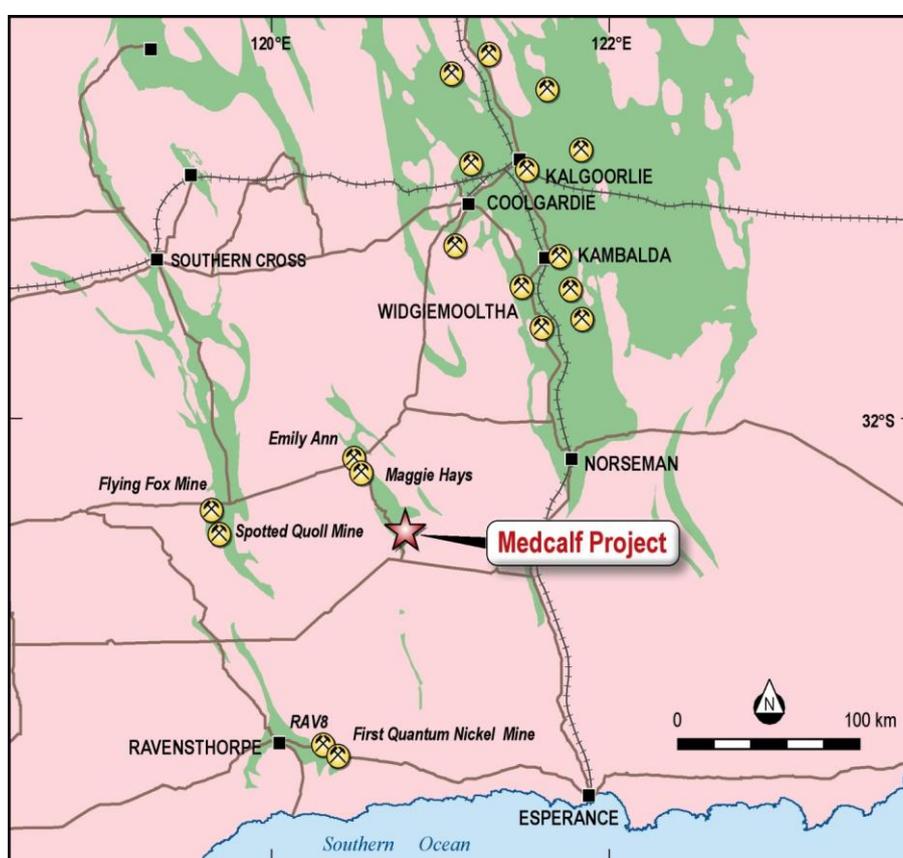


Figure 1: Medcalf Project location map

Activities conducted during the year

Interim metallurgical test work programme

During the September 2016 quarter, the Company delivered additional core samples from the November 2015 drill programme to its independent overseas consultant to commence the interim metallurgical testwork programme. The Company also engaged local consultant, Nagrom, in the December 2016 quarter to assist with further refinement of the beneficiation process. The two test programmes were consolidated in the March 2017 quarter, with the overseas consultant completing testwork using the beneficiated concentrate produced by Nagrom.

REVIEW OF ACTIVITIES

Activities conducted during the year (cont'd)

Interim metallurgical test work programme (cont'd)

The primary objectives of this programme were to examine alternative process options, optimise the process flow sheet, product recovery and grade and increase the confidence of the key assumptions used in the prefeasibility study completed in the March 2016 quarter. The consolidated test work programme was completed during the June 2017 quarter and initial results from the testwork indicate that two products, namely vanadium contained iron ore and titanium concentrate, can be produced from the Medcalf Project via a simplified process route. These products are used in the production of steel, vanadium pentoxide and titanium dioxide pigment. The proposed simplified process route is expected to require lower capital investment and operating costs, and is more technically matured.

Definitive feasibility study

In the December 2016 quarter, the Company commenced a definitive feasibility study (**DFS**) on the Medcalf Project, engaging consultants to begin work on tailings storage facility concept design based on the revised process flowsheet, and to plan a haul road route. An environmental consultant was also engaged by the Company to facilitate the primary environmental approval application required for the development of the Medcalf Project.

Diamond core drilling programme

On 13 October 2016, the Company announced the results from the PQ diamond core drilling programme conducted in November 2015. The results showed a strong consistency of vanadium and titanium in every downhole from surface throughout the prospects which provides further support of the Company's previously assessed mineral resource statement. The core from the programme also provided critical samples for the interim testwork as well as for the DFS.

Bulk sample for pilot plant study

As part of the DFS, the Company will undertake a comprehensive pilot plant study. A location has been selected to extract a bulk sample from the Medcalf mineralisation beside the 2015 PQ drill holes located with the Vesuvius starter pit designed during the pre-feasibility study and a programme of work was submitted to the Department of Parks and Wildlife (DPaW) and the Department of Mines, Industry Regulation and Safety (DMIRS) formerly Department of Mines and Petroleum (DMP) in the March 2017 quarter.

Ancillary tenure

During the June 2017 quarter, the Company commenced preliminary design and survey work in relation to the proposed haul road route. An independent road design engineer conducted road alignment and borrow pit surveys. The Company's environmental consultant conducted Level 2 Autumn flora and fauna surveys along the proposed route during the June 2017 quarter and Level 2 Spring flora and fauna surveys during the September 2017 quarter.

The Company also applied for an adjacent tenement for the purposes of water exploration for the Medcalf Project.

GASCOYNE PROJECT

The Gascoyne Project comprises tenements covering 537km² that are highly prospective for lead (Pb), zinc (Zn) and copper (Cu) deposits, located in the Gascoyne region of Western Australia. It is located approximately 250km to the east of Carnarvon and 830km north from Perth (see Figure 2).

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

REVIEW OF ACTIVITIES

GASCOYNE PROJECT (cont'd)

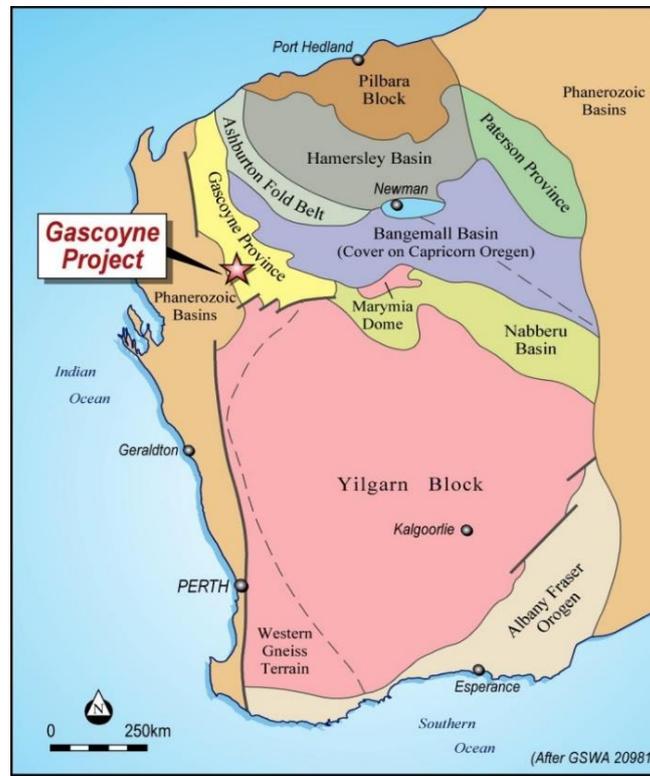


Figure 2: Gascoyne Project - Location Map

Activities conducted during the year

Rock chip sampling programme

During the September 2016 quarter, the Company's consultant geologist completed a rock chip sampling programme on exploration licence E09/2102 at the Gascoyne Project. The sampling focused on previously untested areas focusing on Banded Iron gravels within dry river beds with the primary purpose of identifying manganese, a key indicator for a Broken Hill BIF mineralization of lead, zinc and silver. The results from programme were announced to ASX on 13 October 2016 with two samples returning positive mineralisation.

EM Survey

During the December 2016 quarter, the Company engaged the services of GPX Surveys in Belmont to complete a helicopter airborne Electromagnetic (EM) and magnetic survey over the prospective Banded Iron Formation (BIF) in order to locate massive sulphides within the folds of the BIF. A total of 1038.8 line kilometres was flown that consisted of 942.4 line kilometres at 200m spacing's in a north south direction and 96.4 line kilometres flown in an east west direction (tie lines). The Company secured an XTEM helicopter time domain electromagnetic system to undertake the work.

Initial interpretation from discussions with GPX and a consultant geologist suggested that there were several discrete anomalies that warranted further investigation. The Company engaged Western Geophysics Pty Ltd in the June 2017 quarter to process and interpret airborne magnetic, radiometric from the GPX survey in 2014 and the recently flown electromagnetic data together with the consultant geologist's mapping and sampling and the historic drilling and induced polarisation (IP) data.

REVIEW OF ACTIVITIES

GASCOYNE PROJECT (cont'd)

Sale of Gascoyne Project

On 7 August 2017, Audalia sold the Gascoyne Project to Serena Minerals Pty Ltd (**Serena Minerals**). The Company received 2,500,000 fully paid ordinary shares in the capital of Serena Minerals in consideration for the sale.

CORPORATE

On 8 August 2016, the Company announced that it had successfully negotiated the repayment date of the A\$4 million loan facilities, of which \$3.625 million has been drawn down to date, from 20 March 2017 date to 20 November 2018.

The share capital of the Company changed during the year as the following shares were issued to raise additional capital:

- entitlement issue to shareholders completed on 26 September 2016 that resulted in the issue of 143,297,433 fully paid ordinary shares at an issue price of \$0.01 per share to raise \$1,432,971, before costs.

The Company also received an Australian Government R&D tax incentive rebate of \$1,121,206 (2016: \$995,353) for the year ended 30 June 2016.

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 33 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 2017.

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 57, 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 Fellow member of the Australasian Institute of Mining and Metallurgy. Mr Butler is also a Fellow member of the Society of Geology (USA), Fellow member of the Geological Society of London (UK) and a member of Prospectors Development of Canada. He is currently the CEO and Director of Power Metals Corp (TSX), President and CEO of Superior Mining International Corporation (TSX), and past Director of Millennial Lithium Corp (TSX) (formerly Redhill Resources Corp). 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 45, 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 44, 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.

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.

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.

DIRECTORS' REPORT

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
Datuk Siew Swan Ong	Not Applicable	-	-
Mr Brent Butler	Millennial Lithium Corp.	2006	2017
	Superior Mining International Corporation	2011	Present
	Power Metals Corp.	2017	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	3	-	-	-	-	-
Datuk Siew Swan Ong	13	13	N/A	N/A	-	-
Mr Brent Butler	13	13	2	2	-	-
Mr Xu (Geoffrey) Han	13	13	2	2	-	-

(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.

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)
Datuk Siew Swan Ong	Dato Soo Kok Lim (resigned 25 August 2016)
Mr Xu Han	Mr Xu Han (appointed 30 Jun 16)

DIRECTORS' REPORT

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 \$2,378,752 after income tax for the financial year (2016: loss of \$838,509).

As at 30 June 2017, the Company had net assets of \$3,299,380 (30 June 2016: \$4,283,910), including cash and cash equivalents of \$1,485,702 (30 June 2016: \$882,660).

During the year, there were no additional amounts drawn down and the Company received an additional \$1,121,206 for its Research and Development Tax Incentive expenditure incurred in the 2016 financial year.

The Audit Report issued by the Company's auditor, contains a "Material uncertainty related to going concern" 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 2017 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 \$1,394,222 as a result of issuing shares to its shareholders under an entitlements issue in September 2016 (refer Note B.2 in the financial statements).
- Net cash position of the Company increased by \$603,042 principally due to the capital raising and the receipt of the Research and Development Tax Incentive.
- The Company successfully renegotiated the repayment date of its unsecured loan in August 2016 to 20 November 2018. As at 30 June 2017, Audalia had drawn down on \$3,625,000 of the facilities. Details of the loan facilities are disclosed in Note B.3 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 2017 are 383,957,434.

RESULTS

The Company incurred a loss of \$2,378,752 (2016 loss of \$838,509) after income tax for the financial year after incurring an impairment on its Gascoyne assets of \$1,466,814.

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 2018.

DIRECTORS' REPORT

Planned exploration and activities

The Company's near term objectives include:

Medcalf Project

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

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 2017, 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 2017 Financial Report are reviewed by a suitably qualified competent person.

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 Stephen Hyland, 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.

DIRECTORS' REPORT

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 assessment 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

On 7 August 2017, the Company announced that it had sold three exploration licences comprising the Gascoyne Project, being E09/1824, E09/1825 and E09/2102 to Serena Minerals Pty Ltd (**Serena Minerals**). In consideration for the sale the Company received 2.5 million fully paid ordinary shares in the capital of Serena Minerals.

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 Xu (Geoffrey) Han	Non-Executive Director

(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.

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/.

DIRECTORS' REPORT

(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:

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

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

(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 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 (l) 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, statutory leave obligations and statutory superannuation but do not receive any other retirement benefits.

(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 (i), 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, but did not use any experts in the current year.

(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 director subject to approval by shareholders in a general meeting.

During the previous 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) Use of remuneration consultants

The Board did not engage the services of a remuneration consultant during the year.

(h) Voting and comments made at the Company's 2016 Annual General Meeting

The Remuneration Report for the 2016 financial year received positive shareholder support at the 2016 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.

(i) 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:

	2017 ³	2016 ²	2015 ¹	2014
Net loss for the year ⁴	(2,378,752)	\$838,509	\$753,141	\$402,942
Change in share price	(\$0.05)	(\$0.16)	\$0.10	(\$0.12)
Share price at beginning of the period	\$0.07	\$0.23	\$0.13	\$0.25
Share price at end of the period	\$0.02	\$0.07	\$0.23	\$0.13
Loss per share	0.68 cents	0.35 cents	0.32 cents	0.23 cents

1. 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).
2. 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).
3. The Company issued a total of 143,297,433 shares during the 2017 financial year, on 26 September 2016.
4. 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 the last three years, 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.

DIRECTORS' REPORT

(j) 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.

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 had 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. Dato Lim resigned as a director of the Company on 25 August 2016.

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 was 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 a 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 was 2 years with an option to further extend under mutually agreed terms between the Company and Mr Butler. The Company and Mr Butler agreed to extend the term after the initial contract expired for a further two years to April 2019. The annual fee for Mr Butler is \$120,000 per annum (exclusive of GST) under the CEO Consultancy Agreement. Mr Butler's initial agreement also provided 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:

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

Each of the tranches of Shares are 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.

Mr Han is engaged as a consultant with the Company on a month by month basis. The engagement is for a set number of days in one month at a day rate of \$950 per day. As the engagement is only monthly, there are no termination benefits, notice periods and Mr Han is subject to the Company's code of conduct with regard to termination of the engagement.

DIRECTORS' REPORT

(k) 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.

(l) 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	
		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 \$	Total \$
Directors						
Non-executive						
Mr R Browning ¹	2016	20,622	-	-	-	20,622
Mr X Han ²	2017	212,999	-	-	-	212,999
	2016	-	-	-	-	-
Mr A Kwa ³	2016	-	5,708	-	-	5,708
Executive						
Dato S K Lim ⁴	2017	12,146	1,154	-	-	13,300
	2016	80,000	7,600	8,727	-	96,327
Datuk S S Ong	2017	80,000	7,600	8,146	-	95,746
	2016	80,000	7,600	8,727	-	96,327
Mr B Butler ⁵	2017	150,000	-	-	-	150,000
	2016	150,000	-	-	630,683	780,683
Total	2017	455,145	8,754	8,146	-	472,045
	2016	330,622	20,908	17,454	630,683	999,667

1. Mr Browning was appointed on 3 September 2015 and resigned on 30 June 2016.
2. Mr Han was appointed on 30 June 2016, Mr Han's remuneration includes the consultant's fees listed in the other transactions with key management personnel in (p) below.
3. Mr A Kwa resigned as a director on 30 September 2015.
4. Dato S K Lim resigned as a director on 25 August 2016.
5. Mr Butler's remuneration includes the consultant's fees listed in the other transactions with key management personnel in (p) below.

DIRECTORS' REPORT

(l) Remuneration expense of key management personnel (cont'd)

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	

**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.

There were no share based payments granted in the 2017 financial year.

(m) 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.

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

DIRECTORS' REPORT

(n) 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 2016	Received as remuneration	Options Exercised	Net Changes Other	Balance at 30 June 2017
Directors					
<i>Non-Executive</i>					
Mr X Han	-	-	-	-	-
<i>Executive</i>					
Dato S K Lim ²	24,610,333	-	-	(24,610,333)	-
Datuk S S Ong ¹	25,200,000	-	25,130,000	-	50,330,000
Mr B Butler ¹	4,500,000	-	4,500,000	-	9,000,000

1. Datuk Ong and Mr Butler participated in the Entitlement Issue announced on 8 August 2016 and completed on 26 September.
2. Dato Lim held these shares on the date of his resignation being 25 August 2016.

(o) Loans to key management personnel

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

(p) 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. These value are included in the remuneration tables above.

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	
		2017 \$	2016 \$	2017 \$	2016 \$
Mr B Butler ¹	Consultancy fees	150,000	150,000	-	-
Mr R Browning ²	Consultancy fees	-	139,800	-	-
Mr X Han	Consultancy fees	188,003	-	-	-

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 2017. 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.
3. Mr Han was appointed as a director on 30 June 2016. A company associated with Mr Han, HQ Tech Pty Ltd, provides engineering consulting services in connection with the operations of the Company. The fees disclosed are for the year since Mr Han commenced as a director of the company. Terms for such services are based on market rates, and amounts are payable on a monthly basis.

This concludes the Remuneration Report, which has been audited.

DIRECTORS' REPORT

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.

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:

	2017	2016
	\$	\$
BDO Corporate Tax (WA) Pty Ltd		
<i>Tax compliance services</i>	26,870	28,274

DIRECTORS' REPORT

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 20 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 2017.

Signed in accordance with a resolution of the directors:



Brent Butler
CEO/ Executive Director

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 2017, 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 2017

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
(INCOME STATEMENT)
FOR THE YEAR ENDED 30 JUNE 2017

	Notes	30 June 2017 \$	30 June 2016 \$
Revenue from continuing operations			
Revenue	C.1	6,282	34,543
Financing costs (interest expense)		(344,950)	(273,670)
Exploration expenditure write off	A.1	(1,466,814)	-
Corporate and administration expenses	C.2	(573,270)	(599,382)
Loss before income tax expense		(2,378,752)	(838,509)
Income tax (expense) / benefit	C.3	-	-
Net loss after income tax for the year		(2,378,752)	(838,509)
Other comprehensive income			
Items that may be realised through profit or loss		-	-
Items that may not be realised through profit or loss		-	-
Other comprehensive income for the year net of tax		-	-
Total comprehensive loss for the year, net of tax		(2,378,752)	(838,509)
Owners of Audalia Resources Limited			
Loss per share attributed to the owners of the Company			
Basic and diluted loss per share – (accounting loss / number of shares)	C.4	(0.68)	(0.35)

The statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION
(BALANCE SHEET)
AS AT 30 JUNE 2017

	Notes	June 2017 \$	June 2016 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	B.1	1,485,702	882,660
Trade and other receivables	D.1	86,770	41,997
Other assets	D.2	11,116	11,335
Total current assets		1,583,588	935,992
NON-CURRENT ASSETS			
Plant and equipment	A.3	22,041	33,471
Exploration and evaluation expenditure	A.1	6,724,854	7,907,786
Total non-current assets		6,746,895	7,941,257
TOTAL ASSETS		8,330,483	8,877,249
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	D.4	655,452	888,235
Employee benefits obligations	D.5	78,463	70,774
Borrowings		-	3,625,000
Total current liabilities		733,915	4,584,009
NON-CURRENT LIABILITIES			
Employee benefits obligations	D.5	6,800	9,330
Other payables	D.4	665,388	-
Borrowings	B.3	3,625,000	-
Total non-current liabilities		4,297,188	9,330
TOTAL LIABILITIES		5,031,103	4,593,339
NET ASSETS		3,299,380	4,283,910
EQUITY			
Issued capital	B.2	8,442,457	7,048,235
Reserves	B.5	10,000	10,000
Accumulated losses	B.6	(5,153,077)	(2,774,325)
TOTAL EQUITY		3,299,380	4,283,910

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

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017**

	Notes	June 2017 \$	June 2016 \$
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of GST)		(490,426)	(389,697)
Interest paid		-	(135)
Interest received		6,244	36,919
Net cash outflows from operating activities		<u>(484,182)</u>	<u>(352,913)</u>
Cash flows from investing activities			
Payments for acquisition of property plant and equipment		(1,048)	(5,000)
Payments for exploration and evaluation assets - capitalised costs		(1,427,156)	(3,040,561)
Proceeds from R&D incentives for exploration and evaluation		1,121,206	995,353
Net cash outflows from investing activities		<u>(306,998)</u>	<u>(2,050,208)</u>
Cash flows from financing activities			
Proceeds from issue of shares		1,432,971	625,000
Payment of share issue costs		(38,749)	-
Net cash inflows from financing activities		<u>1,394,222</u>	<u>625,000</u>
Net increase/(decrease) in cash held		603,042	(1,778,121)
Cash and cash equivalents at 1 July 2016		882,660	2,660,781
Cash and cash equivalents as at 30 June 2017	B.1	<u>1,485,702</u>	<u>882,660</u>
 <i>Reconciliation of the loss for the half year back to cash for corporate administration costs</i>			
Loss for the year		<u>(2,378,752)</u>	<u>(838,509)</u>
Add back – non-cash items			
Depreciation		4,289	4,077
Impairment of exploration assets		1,466,814	-
Changes in the value of assets and liabilities used in the day to day operations of the business			
Change in value (from opening to closing amounts) of trade and other receivables received/(owed)		(44,772)	9,031
Change in value (from opening to closing amounts) of other assets		219	188
Change in value (from opening to closing amounts) of trade and other payables (paid)/owing		462,861	454,418
Change in value (from opening to closing amounts) of employee entitlements (paid)/owing		5,159	17,879
Net cash paid for corporate administration costs during the year		<u>(484,182)</u>	<u>(352,913)</u>

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

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2017**

	Contributed Equity	Accumulated losses	Reserve	Total equity
	\$	\$	\$	\$
Balance at 1 July 2016	7,048,235	(2,774,325)	10,000	4,283,910
Loss for the year	-	(2,378,752)	-	(2,378,752)
<i>Total comprehensive loss for the year</i>	-	(2,378,752)	-	(2,378,752)
<i>Transactions with Shareholders in their capacity as shareholders</i>				
Issue of shares	1,432,971	-	-	1,432,971
Transaction costs of issuing shares	(38,749)	-	-	(38,749)
Balance at 30 June 2017	8,442,457	(5,153,077)	10,000	3,299,380

	Contributed Equity	Accumulated losses	Reserve	Total equity
	\$	\$	\$	\$
Balance at 1 July 2015	5,585,735	(1,935,816)	279,317	3,929,236
Loss for the year	-	(838,509)	-	(838,509)
<i>Total comprehensive loss for the year</i>	-	(838,509)	-	(838,509)
<i>Transactions with Shareholders in their capacity as shareholders</i>				
Issue of shares net of costs	1,462,500	-	(269,317)	1,193,183
Share based payments	-	-	-	-
Balance at 30 June 2016	7,048,235	(2,774,325)	10,000	4,283,910

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

**NOTES TO THE ANNUAL REPORT
FOR THE YER ENDED 30 JUNE 2017**

Table of Notes

1 Basis of preparation and compliance statement

A Significant assets

- A.1 Exploration and evaluation assets
- A.2 Exploration commitments
- A.3 Operating fixed assets

B Financing – Capital, debt, risk management

- B.1 Cash
- B.2 Equity
- B.3 Borrowings (including liquidity)
- B.4 Risk management
- B.5 Reserves
- B.6 Accumulated losses
- B.7 Leases

C Profit or loss items

- C.1 Revenue
- C.2 Expenses
- C.3 Taxation
- C.4 Earnings per share

D Other assets and liabilities

- D.1 Trade and other receivables
- D.2 Other assets
- D.3 Plant and equipment (administration)
- D.4 Trade and other payables (debts)
- D.5 Employee benefits obligations

E Additional disclosures

- E.1 Subsequent events
- E.2 Contingent liabilities
- E.3 Operating commitments
- E.4 Segment reporting
- E.5 Related party transactions
- E.6 Auditor's Remuneration

F Accounting Policy Note

- F.1 Significant accounting policies

**NOTES TO THE ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017**

1. BASIC OF PREPARATION AND COMPLIANCE STATEMENT

The financial report of Audalia Resources Limited (the **Company** or **Audalia**) for the financial year ended 30 June 2017 was authorised by the board of directors for release on 29 September 2017.

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

The going concern concept relates to the assessment of the Company's ability to continue its operations (and pay its debts when they fall due) for the next 12 months from the date when the directors sign the annual report without the need to raise money from issuing shares or increasing the current level of its borrowing facility (which stands at \$4 million).

The directors have prepared an estimated cash flow forecast for the period to September 2018 to determine if the Company may require additional funding during the next 15 months period. Where this cash flow forecast includes the likelihood that additional amounts will be needed and these funds have not yet been secured, it creates uncertainty as to whether the Company will continue to operate in the manner it has planned over the next 12 months.

Where the cash flow forecast includes these uncertainties, the directors will make an assessment whether it is reasonable to assume that the Company will be able to continue its normal operations based on the following factors and judgements:

- The Company has access to cash reserves of \$1,485,702 as at 30 June 2017 (30 June 2016: \$882,660).
- The Company has access to a further \$375,000 under its loan facilities as at 1 September 2017.
- The Company has the ability to adjust its exploration expenditure subject to results of its exploration activities.
- The Directors anticipate the support of the Company's major shareholders and lenders to continue with the advancement of the Medcalf Project.

The cash flow forecast includes an assumption that the Company wishes to progress its exploration and evaluation activities at a rate greater than the minimum requirements as it looks towards the commencement of a definitive feasibility study for its flagship Medcalf project. If the Company starts the study it will require additional funding above the cash amounts expected to be received (or currently available) in the next 12 months.

**NOTES TO THE ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017**

1. BASIC OF PREPARATION AND COMPLIANCE STATEMENT (CONT'D)

(iii) Going concern (cont'd)

As the Company has not yet secured this additional funding, it results 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 annual report.

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 ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017**

A Significant assets

	June 2017 \$	June 2016 \$
A.1 Exploration and evaluation assets		
Exploration, evaluation and development costs carried forward in respect of areas of interest	<u>6,724,854</u>	<u>7,907,786</u>
Reconciliation – Medcalf		
Carrying amount at the beginning of the year	6,799,954	3,731,491
Additions to the exploration and evaluation asset	996,106	4,063,816
Less: R&D tax incentive received (Medcalf Project)	<u>(1,121,206)</u>	<u>(995,353)</u>
Carrying amount at end of the year	<u>6,674,854</u>	<u>6,799,954</u>
Reconciliation – Gascoyne		
Carrying amount at the beginning of the year	1,107,832	981,826
Additions to the exploration and evaluation asset	408,982	126,006
Less: impairment of exploration assets	<u>(1,466,814)</u>	<u>-</u>
Carrying amount at end of the year	<u>50,000</u>	<u>1,107,832</u>

Estimates and judgements

Assumptions used to carry forward the exploration assets

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

Subsequent to year end the company entered into an agreement with Serena Mineral Pty Ltd to sell its Gascoyne interest in exchange for shares in the Serena. The company assessed the fair value of the securities received which resulted in an impairment of \$1,466,814 which is recognised as an expense in the statement of profit or loss & other comprehensive income.

Non-cash items

The Company issued a total of 6,500,000 shares during the 30 June 2016 year which resulted in a non-cash movement of \$1,193,183 in the carrying value of the asset (Nil in 2017). Refer note B.2 and B.5 for details.

	June 2017 \$	June 2016 \$
A.2 Exploration Commitments		
Within one year	225,200	290,947
After one year but not more than five years	780,800	1,461,300
Over five years	<u>2,663,836</u>	<u>2,592,800</u>
	<u>3,669,836</u>	<u>4,345,047</u>

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

**NOTES TO THE ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017**

A Significant assets

	June 2017 \$	June 2016 \$
A.3 Operating assets – Plant and Equipment		
Operating assets – Plant and Equipment	23,810	23,810
Accumulated depreciation	(18,580)	(10,892)
	5,230	12,918
Site equipment	5,000	5,000
Accumulated depreciation	(1,000)	(500)
	4,000	4,500
Total operating assets	9,230	17,418
Total administration assets (refer note D.3)	12,811	16,052
Total plant and equipment balance	22,041	33,471

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

	Site Equipment \$	Office Equipment \$	Total \$
Opening net book value at 1 July 2016	12,918	4,500	17,418
Additions during the year	-	-	-
Depreciation expense	(7,688)	(500)	(8,188)
Closing net book value at 30 June 2017	5,230	4,000	9,230

B Financing – Capital, debt and risk management

	June 2017 \$	June 2016 \$
B.1 Cash		
Cash at bank and in hand	1,469,906	867,182
Term deposit	15,796	15,478
Cash as per cash flow statement	1,485,702	882,660
<i>Credit risk (1)</i>	30,182	35,115
A-1+	1,485,502	882,460

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.

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

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

**NOTES TO THE ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017**

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

(a) Ordinary shares

	June 2017 Number	June 2016 Number	June 2017 \$	June 2016 \$
Balance at the beginning of the year	240,660,001	234,160,001	7,048,235	5,585,735
Shares issue to consultants (23/11/15) ¹		2,500,000		562,500
Shares issued to CEO Tranche 1 shares (24/12/15) ²		2,000,000		450,000
Shares issued to CEO Tranche 1 shares (30/03/16) ²		2,000,000		450,000
Entitlement issue at \$0.01 (28/09/16)	143,297,433	-	1,432,971	
Share issue costs			(38,749)	
Balance as at end of the year	<u>383,957,434</u>	<u>240,660,001</u>	<u>8,442,457</u>	<u>7,048,235</u>

1. These shares were issued to a consultant in satisfaction of the conditions within the contracts to receive the shares.

2. The CEO received these shares as part of his contract, refer to B.5 for further details.

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.

(c) Capital management

The Company's objectives when managing capital are disclosed in Note B.4

**NOTES TO THE ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017**

	June 2017 \$	June 2016 \$
B.3 Borrowings (loans)		
Current	-	3,625,000
Borrowings – (payable within one year)	-	3,625,000
Non-current	3,625,000	-
Borrowings – (payable after one year)	3,625,000	-
 <i>Reconciliation of movements in the balance</i>		
Opening balance	3,625,000	3,000,000
Amounts drawn down	-	625,000
Amounts repaid	-	-
Closing balance at end of year	3,625,000	3,625,000
Facility		
- Amount used	3,625,000	3,625,000
- Amount unused	375,000	375,000
Total Facility	4,000,000	4,000,000

Terms of the borrowings

The key terms of the loans are listed below:

1. The interest rate is 8% compounded daily and payable at the end of the term of the loans;
2. The loans are due to be repaid on 20 November 2018 (together with the interest);
3. The loans are unsecured and are not subject to any covenants; and
4. The loans are with private investors.

Fair value estimation

The fair value of financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The directors consider that the carrying amount of financial liabilities recorded below in the financial statements approximates their fair values as the impact of any time value of money would be immaterial.

Repayment profile (in years) –
(Liquidity)

	Carrying Amount \$	Contractual Cash flows \$	Less than 1 year \$	Between 2 and 5 years \$
30 June 2017				
Interest	665,388	1,274,232		1,274,232
Borrowings	3,625,000	3,625,000		3,625,000
	4,290,388	4,899,232		4,899,232
30 June 2016				
Interest ¹	320,438	528,602	528,602	-
Borrowings ¹	3,625,000	3,625,000	3,625,000	-
	3,945,438	4,153,602	4,153,602	-

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

**NOTES TO THE ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017**

B.4 Risk management

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

- Market risk
- Credit risk
- Liquidity risk

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:

	2017	2016
	\$	\$
Financial assets		
Cash and cash equivalents	1,485,702	882,660
Trade and other receivables	30,182	35,115
	1,515,884	917,775
Financial liabilities		
Trade and other payables	(655,452)	(856,052)
Borrowings	(3,625,000)	(3,625,000)
	(4,280,452)	(4,481,052)

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.

	2017	2016
	\$	\$
<i>Variable rate instruments</i>		
Cash at bank	1,469,706	866,982
<i>Fixed rate instruments`</i>		
Bank term deposits	15,796	15,478
	1,485,502	882,460

Cash flow sensitivity analysis for variable rate instruments

Based on cash balances held at variable rates as at 30 June 2017, a change of 25 basis points in interest rates would have increased or decreased the Company's loss by \$961 (2016: \$2,207 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.

**NOTES TO THE ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017**

B.4 Risk management (continued)

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.

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

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

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

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

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

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

30 June 2017	Carrying amount	Contractual cash flows	Less than 1 year	2-5 years	>5 years
Trade and other payables	655,452	655,452	655,452	-	-
Total	655,452	655,452	655,452	-	-
30 June 2016					
Trade and other payables	535,614	535,614	535,614		
	535,614	535,614	535,614		

**NOTES TO THE ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017**

B Financing – Capital, debt and risk management

B.4 Risk management (continued)

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

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

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

B.5 Reserves	June 2017 \$	June 2016 \$
Options premium reserve (i)	10,000	10,000
Share based payments reserves (ii)	-	-
	10,000	10,000

(i) Option premium reserve

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

(ii) Share based payments reserves

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

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

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 consultant 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 the shares are issued. 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.

**NOTES TO THE ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017**

B Financing – Capital, debt and risk management

B.5 Reserves (continued)

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 prior 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.

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	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 prior 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.

**NOTES TO THE ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017**

B Financing – Capital, debt and risk management

	June 2017 \$	June 2016 \$
B.5 Reserves (continued)		
Total amount recognised as a cost of the exploration asset was as follows:	-	1,193,183
	-	1,193,183

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

	June 2017 \$	June 2016 \$
B.6 Accumulated losses		
Accumulated losses at the beginning of the year	2,774,326	1,935,816
Net loss for the year	2,378,752	838,509
	5,153,077	2,774,325

B.7 Leases

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

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

**NOTES TO THE ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017**

C Profit or loss items	June 2017 \$	June 2016 \$
C.1 Revenue		
Interest income	6,282	34,543
	<u>6,282</u>	<u>34,543</u>
C.2 Expenses		
Personnel expenses		
- Director fees and employee expenses	123,998	204,695
- Superannuation and leave entitlements expense	11,780	37,326
	<u>135,778</u>	<u>242,021</u>
Depreciation and loss on sale expense	4,289	4,078
Administration expenses		
- Accounting, annual report, tax and secretarial fees	104,098	148,312
- Audit expenses	29,917	27,212
- Consultancy fees	21,250	28,274
- Insurance expenses	17,318	17,029
- Legal expenses	83,920	1,099
- Regulatory fees	32,461	35,077
- Operating lease expenses	65,000	65,000
- Other expenses	79,239	31,280
Total administration expenses	<u>433,203</u>	<u>353,283</u>
Total expenses	<u>573,270</u>	<u>599,382</u>
C.3 Taxation		
Loss before income tax expense	(2,378,752)	(838,509)
Income tax benefit calculated at 27.5% (2016:28.5%)	(654,157)	(238,975)
Effect of non-deductible item – entertainment/other	-	-
Increase in deferred tax liability balance not previously recognised	-	-
Increase in deferred tax asset balances not previously recognised	-	-
Increase in deferred tax balance not brought to account	654,157	238,975
Income tax expense	<u>-</u>	<u>-</u>
Set-off deferred tax liabilities pursuant to off-set provisions		
Deferred tax liability on Exploration assets, prepayments & interest	1,852,505	2,253,719
less: Deferred tax asset on carry forward losses / timing difference	<u>(1,852,505)</u>	<u>(2,253,719)</u>
Net deferred tax liability for the year	<u>-</u>	<u>-</u>

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.

**NOTES TO THE ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017**

C Profit and loss items (continued)

	June 2017 \$	June 2016 \$
C.3 Taxation (continued)		
Deferred tax assets not brought to account		
Carry forward tax losses	1,913,738	2,038,761
Capital raising costs	1,309	2,244
Provisions and accruals	330,828	240,943
	<u>2,245,875</u>	<u>2,281,948</u>
Deferred tax liabilities not brought to account		
Prepayments	3,117	1,687
Interest receivable	53	55
Exploration and evaluation costs	1,849,335	2,253,719
	<u>1,852,505</u>	<u>2,255,461</u>

C.4 Earnings per Share

Basic earnings per share

The calculation of basic loss per share at 30 June 2017 was based on the following:

	2017 \$	2016 \$
Loss attributable to ordinary shareholders	<u>(2,378,752)</u>	<u>(838,509)</u>
Weighted average number of ordinary shares		
Weighted average number of ordinary shares used as denominator in calculating loss per share	349,016,416	237,224,385
	<u>349,016,416</u>	<u>237,224,385</u>

:

**NOTES TO THE ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017**

D Other assets and liabilities

	June 2017 \$	June 2016 \$
D.1 Trade and other receivables		
GST receivable	56,588	6,881
Interest receivable	232	195
Security deposit	29,950	29,950
Other receivables	-	4,971
	<u>86,770</u>	<u>41,997</u>

Estimates and judgement

Recoverability of the assets

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

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

	June 2017 \$	June 2016 \$
Credit risk (excludes GST)	30,182	30,144
A-1+ ¹		
No credit rating available (received after year end)	-	4,971
	<u>30,182</u>	<u>35,115</u>

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.

	June 2017 \$	June 2016 \$
D.2 Other assets		
Prepaid rent	5,417	5,417
Prepaid insurance	5,699	5,918
	<u>11,116</u>	<u>11,335</u>

**NOTES TO THE ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017**

D Other assets and liabilities (continued)

	June 2017 \$	June 2016 \$
D.3 Plant and Equipment (administration)		
Office Equipment	16,592	16,024
Accumulated depreciation	(8,816)	(5,903)
	7,776	10,121
Furniture and fittings	7,555	7,555
Accumulated depreciation	(2,520)	(1,764)
	5,035	5,791
Leaseholder improvements	635	635
Accumulated depreciation	(635)	(495)
	-	140
Total administration assets	12,811	16,052

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

	Office Equipment \$	Furniture & Fittings \$	Leasehold Improvements \$	Total \$
Opening net book value at 1 Jul 2016	10,121	5,791	140	16,052
Additions during the year	1,048	-	-	1,048
Disposals during the year	(200)	-	-	(200)
Depreciation expense	(3,193)	(756)	(140)	(4,089)
Closing net book value at 30 June 2017	7,776	5,035	-	12,811

	June 2017 \$	June 2016 \$
D.4 Trade and other payables (debts)		
<i><u>Current liabilities (debts payable within 12 months)</u></i>		
Trade creditors	101,064	121,915
Other creditors and accrual	554,388	766,321
	655,452	888,236
 <i><u>Non-current liabilities (debts payable after 12 months)</u></i>		
Other creditors and accruals ¹	665,388	-
	665,388	-

1. Refer to note B.3 for details of the repayment period for the non-current liabilities. This amount relates to the unpaid interest on the non-current borrowings as at 30 June 2017.

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

**NOTES TO THE ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017**

D Other assets and liabilities (cont'd)

	June 2017 \$	June 2016 \$
D.5 Employee benefits obligations		
Annual leave – current	78,463	70,774
<i>Annual leave – current (due for payment within 12 months)</i>		
Reconciliation		
Balance brought forward	70,774	14,092
Movement during the year	7,689	14,520
Transfer from non-current liabilities	-	42,162
Balance carried forward	78,463	70,774
Long service leave – non-current	6,800	9,330
<i>Annual and Long service leave – non-current liabilities (debts payable after 12 months)</i>		
Reconciliation		
Balance brought forward	9,330	48,132
Movement during the year	(2,530)	3,360
Transfer from non-current liabilities	-	(42,162)
Balance carried forward	6,800	9,330

E Additional disclosures

E.1 Subsequent events

Subsequent to year end the company entered into an agreement with Serena Mineral Pty Ltd to sell its Gascoyne interest in exchange for shares in the Serena. The company assessed the fair value of the securities received which resulted in an impairment of \$1,466,814 which is recognised as an expense in the statement of profit or loss & other comprehensive income.

E.2 Contingent liabilities

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

**NOTES TO THE ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017**

E Additional disclosures

E.3 Operating Commitments

Remunerations commitments

Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities (debts payable) are listed above.

	June 2017	June 2016
	\$	\$
Within one year	300,000	100,000
After one year but not more than five years		
	<u>300,000</u>	<u>100,000</u>

As at the date of this report the company had formally extended the CEOs consulting agreement to April 2019. In addition, Datuk Siew Swan Ong has his contract extended for a further two years on 4 July 2016. The extension agreements are on the same forms as the original agreement.

E.4 Segment reporting

	Mineral Exploration	Corporate Admin	Company
	\$	\$	\$
30 June 2017			
Segment Revenue	-	6,282	6,282
Significant expenses within the loss			
Interest expenses	-	(344,950)	(344,950)
Depreciation and amortisation	-	(4,289)	(4,289)
Impairment of assets	(1,466,814)	-	(1,466,814)
Segment net operating profit/(loss) after tax	<u>(1,466,814)</u>	<u>(911,938)</u>	<u>(2,378,752)</u>
30 June 2016			
Segment Revenue	-	34,543	34,543
Significant expenses within the loss			
Interest expenses	-	(273,670)	(273,670)
Depreciation and amortisation	-	(4,078)	(4,078)
Impairment of assets	-	-	-
Segment net operating profit/(loss) after tax	<u>-</u>	<u>(838,509)</u>	<u>(838,509)</u>
Segment assets			
At 30 June 2017	6,734,084	1,596,399	8,330,483
At 30 June 2016	7,907,786	969,463	8,877,249
Segment liabilities			
At 30 June 2017	(92,525)	(4,938,578)	(5,031,103)
At 30 June 2016	(120,726)	(4,472,613)	(4,593,339)

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

**NOTES TO THE ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017**

E Additional disclosures

E.5 Related party transactions

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

The Company's key management personnel for the period 1 July 2016 to 30 June 2017 were:

Mr Brent Butler
Datuk Siew Swan Ong
Mr Geoffrey Han
Dato Soo Kok Lim (resigned 26 August 2016)

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

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

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

	June 2017	June 2016
	\$	\$
(a) Key management personnel compensation		
Short-term employee benefits	455,145	330,622
Post-employment benefits	8,754	20,908
Long term benefits	8,146	17,454
Share based remuneration	-	630,683
	472,045	999,667

Further details on share based payments are in Note B.5. 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 have been set out on the following page.

**NOTES TO THE ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017**

E Additional disclosures

E.5 Related party transactions (cont'd)

Director / executive	Transaction	Transaction Value		Outstanding balance	
		June 2017	June 2016	June 2017	June 2016
		\$	\$	\$	\$
Mr B Butler 1	Consulting Services	120,000	120,000	-	-
Mr X Han 2	Consulting Services	188,003	-	-	-
Mr R Browning 3	Consulting Services	-	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, provides geological consulting services in connection with the operations of the Company. Terms for such services are based on market rates, and amounts are payable on a monthly basis.

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

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

There are no other related party transactions (other than directors' fees and director's salaries) to be disclosed in the interim financial report. The total amount owed to the directors for salaries as at 30 June 2017 which remain unpaid are \$412,146 (which forms part of the other creditors and accrued balance in note D.4 above) (2016: \$320,000).

June 2017	June 2016
\$	\$

E.6 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

BDO Audit (WA) Pty Ltd

- audit of financial report	29,917	27,212
-----------------------------	--------	--------

Other Services

BDO Corporate Tax (WA) Pty Ltd

- Tax compliance	6,630	7,008
- Tax compliance - R&D incentive	20,240	21,265
	<u>56,787</u>	<u>55,485</u>

NOTES TO THE ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

F.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) 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

(b) 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.

(c) 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.

(d) 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.

(e) 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.

NOTES TO THE ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

F.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(e) Exploration and evaluation expenditure

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.

(f) 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.

(g) 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 or 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 or 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.

(h) 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.

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 or 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

NOTES TO THE ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2017

F.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(i) 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 B.4. 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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 ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017**

F.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(m) Income tax (cont'd)

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

(n) 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.

(o) 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.

(p) 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

**NOTES TO THE ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017**

F.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(p) Property, plant and equipment (cont'd)

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 (e).

(q) 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.

(r) 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 or loss. If the expenditure is capitalised to an asset, the tax incentive will reduce the carrying value of the asset.

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

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

Title and Reference	Nature of Change	Application date for entity
AASB 9 Financial Instruments AASB 9	Amends the requirements for classification and measurement of financial assets. The available-for-sale and held-to-maturity categories of financial assets in AASB 139 have been eliminated.	1 July 2018
	Adoption of AASB 9 is only mandatory for the year ending 30 June 2019. This assessment of expected credit losses will be undertaken at each reporting date to determine if, in the directors' opinion, an impairment should be recorded in the financial statements. As at 30 June 2017, if the Company were to make this assessment using the future requirements, the Company would not record an impairment in the annual report.	

**NOTES TO THE ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2017**

F.1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

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>At the current stage of the Company development and with no revenue streams, the Company does not expect to have a material impact of the financial statements during the transition to the new standard.</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>As the Company does not have significant operating leases in place, the impact of the transition to this standard is low with the likely result of an asset and liability recorded at a similar value to the operating lease commitment note at year end.</p>	1 Jan 2019

Directors' Declaration

In the opinion of the directors of Audalia Resources Limited:

- (a) the financial statements and notes set out on pages 21 to 50, 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 2017 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 2017. 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 2017.

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 Audit of the Financial Report

Opinion

We have audited the financial report of Audalia Resources Limited (the Company), which comprises the statement of financial position as at 30 June 2017, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying 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 2017 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Report section of our report. We are independent of the Company in accordance with the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Material uncertainty related to going concern

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Accounting for capitalised exploration and evaluation asset

Key audit matter	How the matter was addressed in our audit
<p>At 30 June 2017 the carrying value of the capitalised exploration and evaluation asset was \$6,724,854 (30 June 2016: \$7,907,786), as disclosed in Note A.1.</p> <p>As the carrying value of the Exploration and Evaluation Asset represents a significant asset of the Company, we considered it necessary to assess whether any facts or circumstances exist to suggest that the carrying amount of this asset may exceed its recoverable amount.</p> <p>Judgement is applied in determining the treatment of exploration expenditure in accordance with Australian Accounting Standard AASB 6 Exploration for and Evaluation of Mineral Resources. In particular:</p> <ul style="list-style-type: none"> • Whether the conditions for capitalisation are satisfied; • Which elements of exploration and evaluation expenditures qualify for recognition; and • Whether facts and circumstances indicate that the exploration and expenditure assets should be tested for impairment. 	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining a schedule of the areas of interest held by the Company and assessing whether the rights to tenure of those areas of interest remained current at balance date; • Verifying, on a sample basis, exploration and evaluation expenditure capitalised during the year for compliance with the recognition and measurement criteria of AASB 6; • Considering the status of the ongoing exploration programmes in the respective areas of interest by holding discussions with management, and reviewing the Company's exploration budgets, ASX announcements and director's minutes; • Considering whether any such areas of interest had reached a stage where a reasonable assessment of economically recoverable reserves existed; • Considering whether any facts or circumstances existed to suggest impairment testing was required; and • Assessing the adequacy of the related disclosures in Note A.1 to the Financial Statements.



Other information

The directors are responsible for the other information. The other information comprises the information in the Company's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors 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 preparing the financial report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf

This description forms part of our auditor's report.



Report on the Remuneration Report

Opinion 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 2017.

In our opinion, the Remuneration Report of Audalia resources Limited, for the year ended 30 June 2017, complies with section 300A of the Corporations Act 2001.

Responsibilities

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.

BDO Audit (WA) Pty Ltd

A handwritten signature in blue ink, consisting of the letters 'BDO' above the name 'J Prue'.

Jarrad Prue

Director

Perth, 29 September 2017

Shareholder Information

Details of shares as at 25 September 2017

Top holders

The 20 largest registered holders of each class of quoted security as at 25 September 2017 were:

Fully paid ordinary shares

	Name	Number 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	MINH HWAI TAN	32,500,000	8.46
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	2.3
14	MS NICOLA LIAN LI LIM	7,010,000	1.83
15	MOI MOI CHUA	5,833,338	1.52
16	MR WEI HAN	5,000,000	1.3
17	CHAI KEONG LOH	2,350,000	0.61
18	BENG HONG TAN	2,160,000	0.56
19	MR CHAO YONG LEE	2,140,000	0.56
20	M & K KORKIDAS PTY LTD (M&K KORKIDAS P/L S/FUND A/C)	1,457,600	0.38
		365,454,607	95.18

Distribution schedules

A distribution schedule of each class of equity security as at 25 September 2017 were:

Fully paid ordinary shares

	Range	Holders	Units	%
1	-	3	260	0
1,001	-	3	9,656	0
5,001	-	198	1,977,000	0.51
10,001	-	28	856,443	0.22
100,001	-	43	381,114,075	99.26
Total		275	383,957,434	100

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	50,330,000
Soo Kok Lim	24,610,333
Li Yi Phang	22,750,000

Shareholder Information

Restricted Securities

As at 25 September 2017, the Company had the following restricted securities on issue.

Number of Shares	Escrow Period
2,000,000	Restricted securities until 24 December 2017
2,000,000	Restricted securities until 30 March 2018

Unmarketable parcels

Holdings less than a marketable parcel of ordinary shares (being 33,333 as at 25 September 2017):

Holders	Units
225	2,374,898

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

SUMMARY OF TENEMENTS

Summary of tenements as 25 September 2017

Projects	Licence Number	Area (km ²)	Registered Holder/ Applicant	Status	Audalia Interest
Western Australia					
Medcalf	E63/1133	2.15	Audalia Resources Limited	Granted	100%
	E63/1134	2.9	Audalia Resources Limited	Granted	100%
	M63/656	18.54	Audalia Resources Limited	Granted	100%
	E63/1855	14.48	Audalia Resources Limited	Not granted	0%
	L63/75	16.57	Audalia Resources Limited	Not granted	0%
Gascoyne*	E09/1824		Audalia Resources Limited	Sold	0%
	E09/1825		Audalia Resources Limited	Sold	0%
	E09/2102		Audalia Resources Limited	Sold	0%

***Note:** As announced on 7 August 2017, the Company sold three exploration licences comprising the Gascoyne Project, being E09/1824, E09/1825, and E09/2102 to Serena Minerals Pty Ltd (**Serena Minerals**) in consideration for 2.5 million fully paid ordinary shares in the capital of Serena Minerals. Pending transfer of the titles to Serena Minerals, the Company has a legal interest in the exploration licences but they are beneficially held by Serena Minerals.