



**ADMIRALTY RESOURCES**



**Admiralty Resources NL**

**ABN: 74 010 195 972**

**FINANCIAL REPORT  
FOR THE HALF -YEAR ENDED  
31 DECEMBER 2015**

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## CORPORATE DIRECTORY

### Admiralty Resources NL

ABN: 74 010 195 972

#### Directors:

Qing Zhong  
Hanrui Zhong  
Bin Li

#### Company Secretary:

Jarrod White

#### Principle place of business:

Suite 1602, 87-89 Liverpool Street  
Sydney NSW  
2000

#### Registered Office:

C/- Traverse Accountants  
Suite 305, Level 3  
35 Lime Street  
Sydney NSW 2000

#### Securities Quoted:

Australian Securities Exchange Ltd (ASX)  
Code: ADY (shares)

#### Auditors:

RSM Australia Partners  
Level 12, 60 Castlereagh Street  
Sydney NSW 2000

#### Bankers:

Westpac Banking Corporation  
447 Bourke Street  
Melbourne VIC 3000  
Australia

Citi Banco de Chile  
Agustinas 1180  
Santiago, Chile

National Australia Bank  
Level 13, Tower B, 799  
Pacific Highway  
Chatswood NSW 2067

HSBC Hong Kong  
BL1, HSBC Main  
Building 1 Queen's  
Road  
Central, Hong Kong

#### Lawyers:

Hall & Wilcox  
Level 30, 600 Bourke Street  
Melbourne VIC 3000 Australia

Noguera, Larraín &  
Dulanto Abogados  
El Golf 40, piso 11  
Las Condes, Santiago,  
Chile

Gillis Delaney  
Level 11, 279 Elizabeth  
Street  
Sydney NSW 2000 Australia

Addisons Lawyers  
Level 12, 60  
Carrington Street  
Sydney NSW 2000  
Australia

#### Share Registry:

Boardroom Limited  
Level 12 225 George  
Sydney NSW 2000 Australia

#### Website:

[www.ady.com.au](http://www.ady.com.au)

### Admiralty Resources Group Structure

Admiralty Resources NL (ACN 010 195 972) has the following subsidiaries:

- **Admiralty Minerals Chile Pty Ltd**
- **Admiralty Minerals Chile Pty Ltd Agencia en Chile** (Chilean branch of Admiralty Minerals Chile Pty Ltd, which owns mineral concessions in Chile)
- **Bulman Resources Pty Ltd** (100% ownership of the Bulman lead/zinc project in the Northern Territory, Australia)
- **Pyke Hill Resources Pty Ltd** (has a 50% ownership interest in the Pyke Hill Nickel/Cobalt resource in Western Australia subject to an exploitation agreement with Cougar Metals NL)
- **Admiralty Resources (Hong Kong) Limited**
- **ADY Investments Pty Ltd** (currently inactive)
- **Fortune Global Holdings Corporation** (currently inactive)
- **Servicios Admiralty Resources Chile Limitada**

## DIRECTORS' REPORT

The Directors of Admiralty Resources NL submit the half-year financial report of the Company for the half year ended 31 December 2015 which comprises the results of Admiralty Resources NL and the entities it controlled during the period.

### Directors

The names of the Directors of the Company during or since the end of the previous financial period and up to the date of this report are:

- Qing Zhong (Managing Director)
- Hanrui Zhong (Non-Executive Director)
- Bin Li (Non-executive Director)

## OPERATING AND FINANCIAL REVIEW

### Principal Activities

The Consolidated Entity's principal activities during the course of the financial year were the exploration for and development of economic mineral deposits.

### Operating Results

The results for the six month period reflect a loss of \$897,909 (2014: \$1,679,888).

### HIGHLIGHTS:

#### Convertible Note

On 1 July 2015 the Group made a decision to revise the Convertible Loan Facility Agreement between Admiralty Resources (Hong Kong) Limited and Smart East Global Limited and provide a further loan in the amount of US\$1,500,000. Therefore the total amount drawn down under the Second Facility Agreement will be US\$3,000,000. The sole purpose of the further loan is to repay the amount outstanding under the First Facility Agreement, held under Admiralty Resources NL to the Lender. The group has discharged all amounts outstanding under the First Facility Agreement to the Lender.

The term of the loan is for one year and interest is due and payable at a rate of 12% per annum on a quarterly basis. The agreement provided that the lender may convert the amount to ordinary shares at the amount equivalent to 80% of the Volume Weighted Average Price per share calculated 90 days immediately prior to the conversion date.

#### First Facility

On the 26 June 2013 the Company signed a Convertible Loan Facility Agreement ("the Agreement") with Smart East Global Limited (a BVI Company) for \$US3,000,000. As at 30 June 2015 \$US1,500,000 had been drawn down. The term of the loan was for three years and interest was due and payable at a rate of 12% per annum. The Agreement provided that the lender may convert the amount outstanding to ordinary shares at 4c per share.



## DIRECTORS' REPORT CONTINUED

### Second Facility

On 1 March 2014 Admiralty Resources (Hong Kong) Limited, a wholly owned subsidiary of the company signed a Convertible Loan Facility Agreement ("the Agreement") with Smart East Global Limited (a BVI Company) for \$US1,500,000. As at 30 June 2015 \$US1,000,000 had been drawn down. The term of the loan was for two years and interest was due and payable at a rate of 12% per annum. The agreement provided that the lender may convert the amount to ordinary shares at the amount equivalent to 80% of the Volume Weighted Average Price per share calculated 90 days immediately prior to the conversion date.

### Soberana Project

On 13 August 2015, the Republic of Chile through the Environmental Evaluation Commission of the Atacama Region has made a favourable environmental qualification for Admiralty's Soberana project. The Commission has certified that the project complies with the requirements of environmental nature as contained in Environmental Permits 88, 91, 93, 94, 96, 99 and 106 as listed in the items of the Regulation of the System of Environmental Impact Evaluation. The Commission assessed the project on an assumed workforce of 245 people and annual production of 540,000 tonnes of iron concentrate grading 64% FeT.

### Mariposa Project

The Company currently negotiating a framework agreement with China Nuclear Industry 22nd Construction Co. LTD (CNI22) for a cooperation model. Under the outlined intentions of the agreement, CNI22 is to finance construction costs of RMB 180 million with any excess cost to be borne by ADY. ADY is to guarantee that the profit to CNI22 is to be no lower than 20% of the construction cost. Under the agreement, CNI22 will be responsible for ore extraction and production of fine iron.

## REVIEW OF OPERATIONS

### Chile

#### Harper South District

The Harper South district ("Harper South") lies 15 km south west of the city of Vallenar in the Atacama Region of Chile, covers an area of approximately 2,498 hectares, where exploration to date has identified six targets via high-resolution ground magnetic surveys: Mariposa, Soberana, La Chulula, Negrita, Mal Pelo and La Vaca.

Harper South is the most advanced district in respect of the Company's exploration portfolio, with the three most important targets on Admiralty's exploration pipeline being Mariposa, Soberana and La Chulula. These targets are being further developed for the exploration of iron in the form of magnetite.



Location map showing location of Admiralty's Harper South district and the three primary targets.

## DIRECTOR'S REPORT CONTINUED

### Mariposa

Mariposa is Admiralty's most developed target showing resources, as announced on 25 January 2013. The following table shows Mineral Resource Statement quantifies the resources at Mariposa at 174.5 Mt at 24.5% Fe at a cut-off grade of 15% Fe in the Measured, Indicated and Inferred categories as follows<sup>1</sup>:

Cut-off grade FeT %	Measured Resources (Mt)	Indicated Resources (Mt)	Inferred Resources (Mt)	Total Resources (Mt)	Average FeT (%)	Average FeMag (%)
15	43.4	7.6	123.5	174.5	24.5	18.0

1) Refer to ASX announcement of 25 January 2013 for full details of the updated resource estimation

In addition to the increase in the total resources for Mariposa, this Resource Evaluation recorded a maiden Measured Resource of 43.4 Mt and it measured the magnetic iron content of the resource, which is a crucial aspect for the plant design and equipment selection for a dry magnetic separation process.

The Company is currently negotiating a framework agreement with China Nuclear Industry 22nd Construction Co. LTD (CNI22) for a cooperation model. Under the outlined intentions of the agreement, CNI22 is to finance construction costs of RMB 180 million with any excess cost to be borne by ADY.

ADY is to guarantee that the profit to CNI22 is to be no lower than 20% of the construction cost. Under the agreement, CNI22 will be responsible for ore extraction and production of fine iron.

### Soberana

Soberana currently ranks as Admiralty's second most developed target with a completed Scoping Study showing resources, as announced on 15 January 2013. The following table shows the inferred resource statement has been prepared by Redco Mining Engineers Ltd. ("Redco"), a Chilean engineering firm. The Soberana mineral resource estimate has been classified as inferred resources based on the guidelines of the JORC Code (2004) and is as follows:

Cut-off grade FeT %	Measured Resources (Mt)	Indicated Resources (Mt)	Inferred Resources (Mt)	Total Resources (Mt)	Average FeT (%)
15	-	-	90.2	90.2	24.5

### Dry magnetic separation process

Our magnetite iron ores in Chile requires beneficiation before shipping in order to reduce freight costs. Lack of immediately available water drives us towards using a dry magnetic separation process. Maximising the metallurgical recovery of our iron in this process is highly advantageous. Fortunately, the use of a dry magnetic separation process also delivers two other positive outcomes – low environmental impact and low capital costs.



## DIRECTOR'S REPORT CONTINUED

### La Chulula

La Chulula is a project located 15km south of the city of Vallenar, III Region, Chile. La Chulula was marked as a high priority target for Admiralty following the results of the 3-D inversion and interpretation of the results of the high-resolution ground magnetic survey undertaken in 2011, which showed La Chulula as the ore body with highest susceptibility and depth within Harper South.

#### Drilling programs

These results were followed up by a 600m diamond drilling test hole in February 2012 and a 7,952m of reverse circulation ("RC") drilling, divided in three campaigns, throughout June 2012 to January 2013 as follows:

- Maiden RC campaign of 2,748m covering 10 holes with depths between 200-350m in June and July 2012;
- Second RC campaign of 3,772m covering 16 holes depths between 150m-314m, completed during September and October 2012;
- A final RC campaign of 1,432m covering 6 holes between 130-342m depth took place in December 2012-January 2013. The purpose of this campaign was to do infill drilling in non-covered areas or areas of interest and test the depth of the ore body.

#### Maiden Mineral Resources Estimate Update

As announced to the market on 16 April 2015 Admiralty commissioned Golder Associates S.A. (Golder) to prepare a Resource Evaluation Statement for the La Chulula project. The resource estimate is based on the results obtained from the reverse circulation and diamond drilling campaign completed in 2012 and was prepared in accordance with the guidelines of Australasian Code for Reporting Joint Ore Reserves Committee (2012). The Mineral Resources Estimate quantifies the resources at La Chulula at 96 Mt at 24% Fe for a 15% Fe-cut off the inferred category and is as follows.

Project Name	Measured Resources (Mt)	Indicated Resources (Mt)	Inferred Resources (Mt)	Total Resources (Mt)	Average FeT (%)	Notes
Mariposa	43.4	7.6	123.5	174.5	24.5	(a)
La Chulula			96.0	96.0	24.0	(b)
Soberana			90.2	90.2	24.5	(c)
<b>TOTAL</b>	<b>43.4</b>	<b>7.6</b>	<b>309.7</b>	<b>360.7</b>	<b>24.4</b>	

## DIRECTOR'S REPORT CONTINUED

### Events Subsequent to Balance Date

Subsequent to the reporting period, the Group drew down a further \$500,000 on their convertible note facility which is held with Smart East Global (SEG). These funds will be used for maintenance costs associated with exploration activities in Chile and provide working capital.

### Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is included within these financial statements on page 9.

Signed in accordance with a resolution of directors.

On behalf of the Directors



Qing Zhong  
Managing Director  
15 March 2016



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**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the review of the financial report of Admiralty Resources NL for the half year ended 31 December 2015, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

RSM

**RSM AUSTRALIA PARTNERS**A blue ink signature of G N Sherwood, with the initials 'GNS' written to the right of the signature.

**G N Sherwood**  
Partner

Sydney, NSW

Dated: 15 March 2016

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

		Consolidated Group	
	Note	31 December 2015	31 December 2014
		\$	\$
<b>Revenue</b>			
Interest	2	2,364	-
Other Income	2	128,076	1,456
		<u>130,440</u>	<u>1,456</u>
<b>Expenses</b>			
Administration expenses		147,188	141,445
Consultancy & Professional expenses		203,118	536,985
Depreciation expense		13,020	20,422
Exploration expenses		28,548	66,603
Employee benefits expense		308,781	414,992
Finance costs		31,764	197,171
Foreign exchange differential		109,365	105,761
Legal costs		62,853	-
Occupancy expenses		51,054	46,256
Tenement expenses		-	26,517
Travel expenses		72,657	125,192
		<u>(1,028,348)</u>	<u>(1,681,344)</u>
Loss before income tax		<b>(897,908)</b>	<b>(1,679,888)</b>
Tax expense		-	-
Loss after income tax for the year		<b>(897,908)</b>	<b>(1,679,888)</b>
<b>Other comprehensive income</b>			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising from foreign operations		(14,224)	22,410
Total other comprehensive income for the year		<b>(14,224)</b>	<b>22,410</b>
Total comprehensive income for the year		<b>(912,132)</b>	<b>(1,657,478)</b>
<b>Loss after income tax attributable to:</b>			
Members of the parent entity		<b>(897,908)</b>	<b>(1,679,888)</b>
<b>Total comprehensive income attributable to:</b>			
Members of the parent entity		<b>(912,132)</b>	<b>(1,657,478)</b>
<b>Loss per share</b>			
Basic and diluted loss per share (cents)		(0.09)	(0.21)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015

	Note	Consolidated Group	
		31 December 2015	30 June 2015
		\$	\$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		246,835	648,040
Trade and other receivables		76,452	114,279
<b>Total Current Assets</b>		<b>323,287</b>	<b>762,319</b>
<b>Non-Current Assets</b>			
Property, plant and equipment		318,625	331,645
Mining interests	3	18,910,723	18,664,270
<b>Total Non-Current Assets</b>		<b>19,229,348</b>	<b>18,995,915</b>
<b>Total Assets</b>		<b>19,552,635</b>	<b>19,758,234</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables		330,771	625,838
Borrowings	4	3,362,360	3,254,012
<b>Total Current Liabilities</b>		<b>3,693,131</b>	<b>3,879,850</b>
<b>Non-Current Liabilities</b>			
Borrowings		-	-
<b>Total Non-Current Liabilities</b>		<b>-</b>	<b>-</b>
<b>Total Liabilities</b>		<b>3,693,131</b>	<b>3,879,850</b>
<b>Net Assets</b>		<b>15,859,504</b>	<b>15,878,384</b>
<b>EQUITY</b>			
Issued capital	6	144,343,662	143,237,430
Reserves	11	(782,333)	(555,129)
Accumulated losses		(127,701,825)	(126,803,917)
<b>Total Equity</b>		<b>15,859,504</b>	<b>15,878,384</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

	Note	Contributed Equity	Convertible Note Equity Reserve	Foreign Currency Reserve	Accumulated Losses	Total Equity
<b>Balance at 1 July 2014</b>		\$	\$	\$	\$	\$
<b>Comprehensive income</b>		140,105,943	212,980	(775,781)	(122,354,202)	17,188,940
Loss after income tax		-	-	-	(1,679,888)	(1,679,888)
Other comprehensive income for the period		-	-	22,410	-	22,410
<b>Total comprehensive income for the period</b>		-	-	<b>22,410</b>	<b>(1,679,888)</b>	<b>(1,657,478)</b>
Issue of share capital net of transaction costs	6	3,131,487	-	-	-	3,131,497
<b>Balance at 31 December 2014</b>		<b>143,237,430</b>	<b>212,980</b>	<b>(753,371)</b>	<b>(124,034,090)</b>	<b>18,662,959</b>

  

	Note	Contributed Equity	Convertible Note Equity Reserve	Foreign Currency Reserve	Accumulated Losses	Total Equity
<b>Balance at 1 July 2015</b>		\$	\$	\$	\$	\$
<b>Comprehensive income</b>		143,277,430	212,980	(768,109)	(126,803,917)	15,918,384
Loss after income tax		-	-	-	(897,908)	(897,908)
Other comprehensive income for the period		-	-	(14,224)	-	(14,224)
<b>Total comprehensive income for the period</b>		-	-	<b>(14,224)</b>	<b>(897,908)</b>	<b>(912,132)</b>
Issue of share capital net of transaction costs	6	1,036,232				1,036,232
Shares in lieu of consulting fees	6	30,000				30,000
Revaluation of equity reserve – convertible note	11	-	(212,980)	-	-	(212,980)
<b>Balance at 31 December 2015</b>		<b>144,343,662</b>	-	<b>(782,333)</b>	<b>(127,701,825)</b>	<b>15,859,504</b>



## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

	Consolidated Group	
	31 December 2015	31 December 2014
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	-	-
Payments to suppliers and employees	(946,805)	(1,501,941)
Interest received	2,364	1,455
Finance costs paid	(1,197)	(159,888)
Net cash used in operating activities	<b>(945,638)</b>	<b>(1,660,374)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for exploration expenditure on mining interests	(275,000)	(111,780)
Net cash used in investing activities	<b>(275,000)</b>	<b>(111,780)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of equity securities net of costs	1,036,232	3,131,497
Repayment of borrowings	(215,991)	-
Net cash provided by financing activities	<b>820,241</b>	<b>3,131,497</b>
<b>Net (decrease)/ increase in cash and cash equivalents</b>	<b>(400,397)</b>	<b>1,359,343</b>
Cash and cash equivalents at beginning of financial year	648,040	771,707
Effects of exchange rate changes on the translation of foreign controlled entities	(808)	33,660
Cash and cash equivalents at end of financial year	<b>246,835</b>	<b>2,164,710</b>

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE HALF YEAR ENDED 31 DECEMBER 2015

#### NOTE 1: SUMMARY OF ACCOUNTING POLICIES

##### (a) Statement of compliance

These general purpose financial statements for the half-year reporting period ended 31 December 2015 have been prepared in accordance with Australian Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting.

The financial statements were authorised for issue by the Directors on 15 March 2016.

##### (b) Basis of Preparation

This interim financial report is intended to provide users with an update on the latest annual financial statements of Admiralty Resources NL and its controlled entities ("the Group"). As such, it does not contain all information that would normally be included in annual financial statements. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2015, together with any public announcements made during the following half-year in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the ASX Listing Rules.

##### (c) Accounting Policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements.

##### I. Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of the entities controlled by the Company at the end of the reporting period and the results for all subsidiaries for the half year ended 31 December 2015. The Company and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'. Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date of control ceases.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled. In preparing the consolidated financial statements, all intragroup balances and transactions between entities in the consolidated group have been eliminated in full, on consolidation.

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE HALF YEAR ENDED 31 DECEMBER 2015

#### NOTE 1: SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

ii. Convertible Notes

Convertible notes are separated into the host liability and embedded derivative components based on the terms of the agreement. On issuance of the convertible notes, the embedded option is recognised at fair value using the Black Scholes method of options valuation. The host debt component of the convertible note is initially measured as the residual amount after separating the embedded derivative. The host debt is carried at amortised cost using the effective interest method until it is extinguished on conversion or redemption.

*Embedded Derivative*

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a standalone derivative.

The embedded derivative is separated from the host contract and accounted for as a derivative if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. The embedded derivative is measured at fair value with changes in value being recorded in profit or loss.

iii. Going Concern

The consolidated statement of profit or loss and other comprehensive income reflects a total loss for the period of \$897,908 and the Group had net cash out flows from operating and investing activities of \$945,638 and \$275,000 respectively for the half year ended 31 December 2015. The Group has net current liabilities of \$3,369,844 as at that date.

The ability of the consolidated entity to continue as a going concern and realise its' Mining Interests and other assets is dependent on a number of factors, the most significant of which is the continuation and availability of funding to continue operations and development of the Mining Interests. These conditions indicate material uncertainties that may cast significant doubt about the consolidated entity's ability to continue as a going concern. The consolidated financial statements have been prepared on a going concern basis, which assumes the continuation of normal trading activities and realisation of assets and settlement of liabilities in the normal course of business.

The directors have reviewed the Company's overall position and outlook in respect of the matters identified above and are of the opinion that the use of the going concern basis is appropriate in the circumstances for the following reasons:

- On 25<sup>th</sup> of November the Group successfully completed a rights issue which raised \$1,093,288 at the offer price of \$0.02 cents per share. The proceeds have been used to repay corporate debt, progress exploration and provide working capital;



## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE HALF YEAR ENDED 31 DECEMBER 2015

#### NOTE 1: SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

- Subsequent to the reporting period the company drew down an additional US\$500,000 (AU\$740,000) in terms of the convertible note facility. This cash is expected to fund operating costs for the next 12 months;
- The Company has the ability to issue additional shares if required pursuant to the Corporation Act 2001. This strategy has proven to be successful in the past;
- In addition, the Directors have been working to minimise cash out flows associated with the expiry of the convertible note arrangements in place, through a renegotiation of convertible note terms and encouraging the conversion rather than repayment of cash proceeds. These negotiations are advanced, and the directors are confident the convertible notes will be either extended beyond 12 months or conversion; and
- The Company is regularly monitoring its cash outflows by implementing a leaner management structure, engaging with skilled consultants on a contractual basis and reducing its exploration and capital expenditure.

Based on the consolidated entity successfully actioning the above, the directors believe that the consolidated entity will continue as a going concern. Should the consolidated entity be unable to continue as a going concern and capital raising initiatives were less than required, the consolidated entity may be required to realise its assets and extinguish its liabilities other than through the ordinary course of business and at amounts different to those stated in the financial report.

The report does not include any adjustment relating to the recoverability and classification of asset carrying amounts or the amounts of liabilities that might result should the entity be unable to continue as a going concern and meet its debts as and when they become payable.

#### (d) Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses.

Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events; management believes to be reasonable under



## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE HALF YEAR ENDED 31 DECEMBER 2015

#### NOTE 1: SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

##### Key judgments

##### *i. Exploration and evaluation expenditure*

The Group capitalises expenditure relating to exploration and evaluation where it is considered likely to be recoverable or where the activities have not reached a stage that permits a reasonable assessment of the existence of reserves. While there are certain areas of interest from which no reserves have been extracted, the directors are of the continued belief that such expenditure should not be written off since feasibility studies in such areas have not yet concluded. Such capitalised expenditure is carried at the end of the reporting period at \$18,910,723 (30 June 2015: \$18,664,270). Mining interests are contained in Note 3 of the financial statements.

##### Key estimates

##### *i. Impairment – general*

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions

##### *ii. Convertible Note*

At 31 December 2015, the Group had a debt of \$3,362,360. The terms of the convertible note include:

- a) Proceeds provided by the Lender are denominated in USD. The right to convert the debt into ADY NL ordinary shares, which are denominated in AUD;
- b) Right to convert into ADY NL ordinary shares equivalent to 80% of the Volume Weighted Average Price per share.

##### *As per AASB 139 paragraph 11*

An embedded derivative shall be separated from the host contract and accounted for as a derivative under this Standard if, and only if:

- (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- (b) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss (i.e. a derivative that is embedded in a *financial asset or financial liability*)

The Group has determined the characteristics of the convertible note meet the criteria of an embedded derivative according the above accounting standards. Further the embedded derivative has been valued separately from the debt host liability and recorded at fair value at each reporting period, with changes in value being recorded in profit or loss.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **FOR THE HALF YEAR ENDED 31 DECEMBER 2015**

#### **NOTE 1: SUMMARY OF ACCOUNTING POLICIES (CONTINUED)**

The assessed fair values of the embedded derivative are determined using a Black-Scholes option pricing model.

#### **(e) New and revised accounting requirements applicable to the current half- year reporting period.**

The Company has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are mandatory for the current reporting period. Any new, revised or amending Accounting Standards or Interpretations that are yet to be mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Company.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE HALF YEAR ENDED 31 DECEMBER 2015

#### NOTE 2: REVENUE AND OTHER INCOME

	Consolidated Group	
	31 December 2015	31 December 2014
	\$	\$
Revenue from continuing operations		
Interest Income	2,364	1,456
Other Income		
Gain on de-recognition of convertible note	113,266	-
Gain on foreign exchange	14,810	-
	<b>130,440</b>	<b>1,456</b>

#### *Gain on de-recognition of convertible note*

On 1 July 2015 the Group repaid its first Convertible loan facility, between Admiralty Resources NL and Smart East Global Limited. This was achieved by drawing down an additional US\$1,500,000 under the second facility Agreement which was used to repay the loan. The second facility agreement is held between Admiralty Resources (Hong Kong) Limited and Smart East Global Limited. As a result of the full repayment, a gain was recognised and accounted for in profit and loss.

#### NOTE 3: MINING INTERESTS

	Consolidated Group	
	31 December 2015	30 June 2015
	\$	\$
Cost	<b>18,910,723</b>	<b>18,664,270</b>
<i>Movement in carrying amounts:</i>		
Balance at the beginning of the period	18,664,270	19,138,897
Additions	246,453	106,886
Impairment	-	(581,513)
<b>Balance at the end of the period</b>	<b>18,910,723</b>	<b>18,664,270</b>

#### NOTE 4: BORROWINGS

	Consolidated Group	
	31 December 2015	30 June 2015
	\$	\$
Current		
Convertible Note – Debt Host Liability	2,783,443	3,254,012
Convertible Note – Derivative Liability	579,917	-
	<b>3,362,360</b>	<b>3,254,012</b>

On 1 July 2015 the Group made a decision to revise the Convertible note loan facility agreement between Admiralty Resources (Hong Kong) Limited and Smart East Global Limited. The revision would provide a further loan in the amount of US\$1,500,000, with the total amount drawn down under the Second Facility Agreement increased to US\$2,500,000. The sole purpose of the further loan is to repay the amount outstanding under the First Facility Agreement, held under Admiralty Resources NL to the Lender. The group has discharged all amounts outstanding under the First Facility Agreement to the Lender.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE HALF YEAR ENDED 31 DECEMBER 2015

#### NOTE 4: BORROWINGS CONTINUED

The term of the loan is for one year and interest is due and payable at a rate of 12% per annum on a quarterly basis. Unpaid interest amounts are accrued and applied on the face value of the accumulated balance of the loan. The agreement provides that the lender may convert the amount to ordinary shares at the amount equivalent to 80% of the Volume Weighted Average Price per share, calculated 90 days immediately prior to the conversion date.

In the half year period the convertible note is due to settle within a 6 month period and therefore have been presented under current liabilities.

The net proceeds received from the issue of the convertible notes are split between the derivative component (representing the residual attributable to the option to convert into ordinary shares at 30 June 2016 and the financial liability (debt host liability.)

#### NOTE 5: FINANCIAL INSTRUMENTS

This note provides information about how the Group determines fair values of its financial liabilities (convertible note.)

Financial Liabilities	Fair Value as at		Fair Value Hierarchy	Valuation Technique(s) and key input(s) at 31 December 2015	Significant unobservable input(s)
	31 December 2015	30 June 2015			
Smart East Global – Convertible Note – Derivative Component	\$579,917(AUD)	-	Level 3	Black Scholes Option Pricing model at 31 December 2015: Underlying share price \$0.01 Risk free rate: 1.75% Volatility: 102% Expected term: 6 months Vesting date: 30 June 2016	N/A

#### NOTE 6: ISSUED CAPITAL

	Consolidated Group	
	31 December 2015	30 June 2015
	\$	\$
<b>Ordinary Shares</b>		
At the beginning of the financial period	143,237,430	140,105,943
Issue of share capital	1,093,288	3,395,403
Share issue transaction costs	(57,056)	(263,916)
Shares issued in lieu of directors fees	40,000	-
Shares issued in lieu of consulting fees	30,000	-
	<b>144,343,662</b>	<b>143,237,430</b>
	<b>31 December 2015</b>	<b>30 June 2015</b>
	<b>No of Shares</b>	<b>No of Shares</b>
<b>Ordinary Shares</b>		
At the beginning of the financial period	959,576,495	746,600,539
Issue of share capital	54,664,403	212,975,956
Shares issued in lieu of consulting fees	1,000,000	-
	<b>1,015,240,898</b>	<b>959,576,495</b>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

### NOTE 7: CAPITAL COMMITMENTS

	Consolidated Group	
	31 December 2015	30 June 2015
	\$	\$
Payable:		
no later than twelve months	106,600	398,788
between twelve months and five years	246,125	235,835
	<b>352,725</b>	<b>634,073</b>

### NOTE 8: EVENTS AFTER REPORTING DATE

Subsequent to the reporting period, the Group drew down a further \$500,000 on their convertible note facility which is held with Smart East Global (SEG). These funds will be used for maintenance costs associated with exploration activities in Chile and provide working capital.

### NOTE 9: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As Announced to the ASX on 13 March 2015 the Company was successful in obtaining judgement in court proceeding against Australis Mining Limited, Corsair Capital Limited and Base Resources Ltd. In 2012 proceedings were instituted by Admiralty in the Supreme Court of Victoria against Australis for unpaid monies under the Share Sale Agreement relating to shares in Vallenar Iron Company ("VIC") entered into on 1 September 2010. Australis and Corsair lodged counter-claims against Admiralty and these formed part of the proceedings.

With the consent of the parties, orders were made by The Honourable Justice Sloss which have the following effect:-

- 1. Judgment for** Admiralty against the defendants for its total claim of US\$1,700,000 and interest of US\$419,700.15;
  - 2.** The two counter-claims against Admiralty were **dismissed**;
  - 3.** An award of costs incurred in the proceedings **in favour** of Admiralty solely.
- Because the receipt of proceeds from the judgement is not certain, no asset has been recognised within these financial statements.

### NOTE 10: OPERATING SEGMENTS

The predominant activity of the group is the exploration for mineral resources. Geographically, the Group operates in three geographical locations – Australia, Hong Kong and Chile.

a. Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors, being the chief operating decision makers with respect to operating segments, are determined in accordance with accounting policies that are consistent with those adopted in the annual financial statements of the Group. Segment revenue and expense are those directly attributable to the segments. Segment assets and liabilities include all those generated by the segments.

- b. Intersegment transactions there are no inter-segment sales.
- c. Business segments

The Group operates in one business segment, being mineral exploration.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

### NOTE 10: OPERATING SEGMENTS (CONTINUED)

	Australia 31-Dec 2015 \$	Australia 31-Dec 2014 \$	HK 31-Dec 2015 \$	HK 31-Dec 2014 \$	Chile 31-Dec 2015 \$	Chile 31-Dec 2014 \$	Consolidated Entity 31-Dec 2015 \$	Consolidated Entity 31-Dec 2014 \$
<b>Revenue</b>								
Revenue from continuing operations	115,630	1,456	-	-	14,810		130,440	1,456
Revenue from discontinuing operations	-	-	-	-	-	-	-	-
Total segment revenue	115,630	1,456	-	-	14,810		130,440	1,456
<b>Entity revenue</b>							<b>130,440</b>	<b>1,456</b>
<b>Loss</b>								
Total segment result	(589,840)	(982,507)	(135,628)	(353,979)	(172,440)	(343,402)	(897,908)	(1,679,888)
Unallocated								
Operating profit before income tax	(589,840)	(982,507)	(135,628)	(353,979)	(172,440)	(343,402)	(897,908)	(1,679,888)
<b>Assets</b>								
Segment assets	317,118	618,535	18,401	19,127	19,217,116	19,120,572	19,552,635	19,758,234
Segment liabilities	(292,605)	(2,416,396)	(3,362,958)	(1,386,600)	(37,568)	(76,854)	(3,693,131)	(3,879,850)
Segment net assets	24,513	(1,797,861)	(3,344,557)	(1,367,473)	19,179,548	19,043,718	15,859,504	15,878,384

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE HALF YEAR ENDED 31 DECEMBER 2015

#### NOTE 11: RESERVES

	Consolidated Group	
	31 December 2015	30 June 2015
	\$	\$
<b>Foreign currency translation reserve</b>		
Balance at the beginning of the financial year	(768,109)	(775,781)
Exchange differences on translation of foreign controlled entities	(14,224)	7,672
<b>Balance at the end of the financial year</b>	<b>(782,333)</b>	<b>(768,109)</b>
<b>Equity portion of convertible note</b>		
Balance at beginning of financial year	212,980	212,980
Revaluation of equity reserve – convertible note	(212,980)	-
<b>Balance at the end of the financial year</b>	<b>-</b>	<b>(212,980)</b>
<b>Total Reserves</b>	<b>(782,333)</b>	<b>(555,129)</b>

## DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Admiralty Resources NL, the directors of the company declare that:

1. The financial statements and notes, as set out on pages 10 to 23, are in accordance with the *Corporations Act 2001* including:
  - a. complying with Accounting Standard 134: *Interim Financial Reporting*; and
  - b. giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of the performance for the half-year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
3. the directors have been given the declarations required by s 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer.



Qing Zhong  
Managing Director  
15 March 2016



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**INDEPENDENT AUDITOR'S REVIEW REPORT  
TO THE MEMBERS OF  
ADMIRALTY RESOURCES NL**

**Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Admiralty Resources NL which comprises the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

*Directors' Responsibility for the Half-Year Financial Report*

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

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Admiralty Resources NL, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

### *Independence*

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

### *Conclusion*

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

### *Emphasis of Matter*

Without qualifying our conclusion, we draw attention to Note 1 in the financial report, which indicates that the consolidated entity incurred a loss for the period of \$897,908 and had net cash outflows from operating activities and investing activities of \$945,638 and \$275,000 respectively for the half-year ended 31 December 2015. Additionally, as at 31 December 2015 the consolidated entity had net current liabilities of \$3,369,844. The ability of the consolidated entity to continue as a going concern and realise its' Mining Interests and other assets is dependent on a number of factors, the most significant of which is the continuation and availability of funding to continue operations and development of the Mining Interests. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

RSM

### **RSM AUSTRALIA PARTNERS**

  
**G N Sherwood**  
Partner

Sydney, NSW  
Dated: 15 March 2016