

VRX SILICA LIMITED

ABN 59 142 014 873

FORMERLY KNOWN AS VENTNOR RESOURCES LIMITED

INTERIM FINANCIAL REPORT

FOR HALF-YEAR ENDED

31 DECEMBER 2018

CORPORATE DIRECTORY

DIRECTORS

Paul Boyatzis (Non-Executive Chairman)
Bruce Maluish (Managing Director)
Peter Pawlowitsch (Non-Executive Director)

SECRETARY

John Geary

REGISTERED AND PRINCIPAL OFFICE

Level 1, 6 Thelma Street
West Perth WA 6005

Telephone: (08) 9226 3780
Facsimile: (08) 9226 3764

SHARE REGISTRY

Computershare Investor Services Pty Ltd
Level 11, 172 St George's Terrace
Perth WA 6000

Telephone: (08) 9323 2000
Facsimile: (08) 9323 2033

AUDITORS

RSM Australia Partners
Level 32, Exchange Tower
2 The Esplanade
Perth WA 6000

AUSTRALIAN SECURITIES EXCHANGE

VRX Silica Limited shares (VRX) are listed on the
Australian Securities Exchange

DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity for the half-year ended 31 December 2018. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

DIRECTORS

The names of the Directors who held office during or since the end of the half-year and until the date of this report are noted below. Directors were in office for this entire period unless otherwise stated:

Paul Boyatzis (Non-Executive Chairman)
Bruce Maluish (Managing Director)
Peter Pawlowitsch (Non-Executive Director)

PRINCIPAL ACTIVITIES

The principal continuing activities during the half-year of entities within the consolidated entity was mineral exploration.

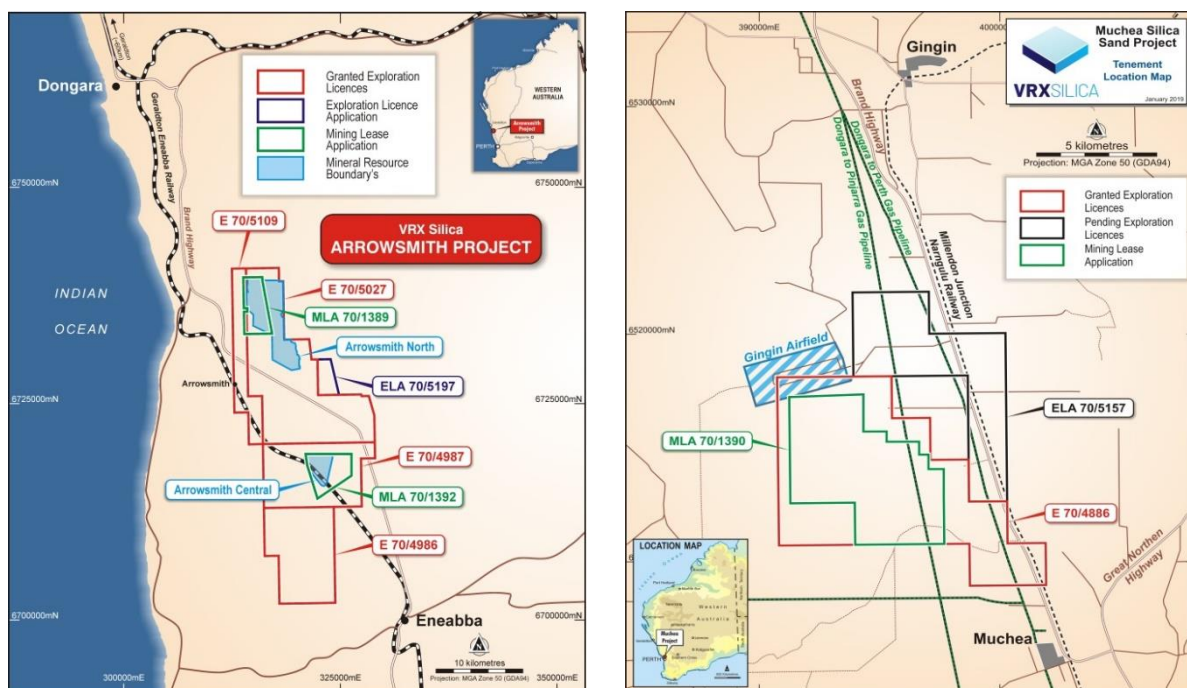
REVIEW OF OPERATIONS

The net loss for the half-year attributable to members of VRX Silica Limited was \$2,259,284 (2017: loss of \$919,872).

During the six months ending 31 December 2018, VRX Silica Ltd (**VRX Silica** or the **Company**) (ASX: VRX) continued to advance the Company's high-grade silica sand projects at Arrowsmith and Muchea in Western Australia. The following is a summary of those activities:

Exploration

VRX Silica has two silica sand projects at Arrowsmith and Muchea, 270km and 50km north of Perth, respectively. See Fig 1 and 2 below:



Figures 1 and 2: Arrowsmith (Left) and Muchea (Right) Silica Sand Projects

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On 2 August 2018, VRX Silica announced the development program for the Arrowsmith (**Arrowsmith**) and Muchea (**Muchea**) Silica Sand Projects which included the completed environmental desktop studies for both Arrowsmith and Muchea. These formed the basis for detailed flora, vegetation and fauna studies which were conducted during the spring months, which will also support a referral to the relevant environmental authorities for a Mining Proposal.

The Company conducted preliminary testwork programs on Arrowsmith sand samples which indicated the deposits at Arrowsmith can be upgraded to glassmaking silica sand requirements. Testwork continued during the period to enable the finalisation of the proposed processing circuit design.

Adequate auger and aircore drilling has been undertaken to allow a JORC Code 2012¹ (**JORC Code**) Resource estimation at each of the projects following the completion of QA/QC assaying and review.

On 15 August 2018, VRX Silica announced that the Department of Mines, Industry and Safety (**DMIRS**) had granted a Programme of Work (**PoW**) for exploration on both the Arrowsmith North (E70/5076) and Arrowsmith Central (E70/4987) prospects.

The exploration drilling planned in the POW was subject to the conditions of the Company's Dieback Management Plan, which has been accepted by DMIRS and added to the tenement conditions for the PoW areas. It requires dry conditions in order for ground disturbing work to be conducted. It also required an Aboriginal Heritage survey, which was completed late in the period.

Drilling programmes planned to enable a JORC Code compliant Mineral Resource Estimation to an Indicated category will be undertaken in March 2019.

Positive Bulk Sampling Results

VRX Silica has completed bulk sampling at both of its silica sand projects – air core drilling and hand auger at Muchea, and hand auger at Arrowsmith. The drill samples were used to generate four bulk composites for metallurgical testwork for Muchea (air core drilling only sampling), Arrowsmith North, Arrowsmith Central and Arrowsmith South (hand auger sampling).

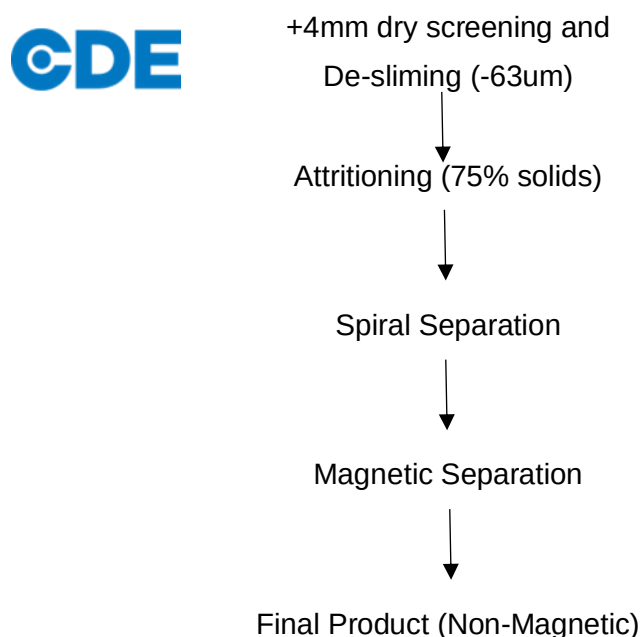
On 20 September 2018, VRX Silica announced positive bulk sampling results from both Arrowsmith and Muchea. The testwork program was developed from laboratory scale testwork undertaken by Nagrom in Perth and confirmed that Arrowsmith North, Arrowsmith Central and Muchea can produce sought-after product for glassmaking.

The Company collected a bulk sample of 300kg from each of its four granted tenements across the Arrowsmith and Muchea projects for bulk metallurgical testwork. The initial results justified a further program on a larger sample and the composite was sent to the CDE Global facility in Cookstown, Northern Ireland, a specialist sand metallurgical testing laboratory, with the intention of gaining a better understanding of the sand characteristics when subjected to standard processing techniques.

¹ Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. The JORC Code, 2012 Edition. Prepared by: The Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia.

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The 4 x 300kg composites were tested by CDE Global using the following flowsheet:



The bulk testwork returned the results set out in Table 1 below, after de-sliming, attritioning, spirals and magnetic separation. The final product grade and particle sizes as reported are considered to be of glass making quality. A significant result of the testwork was the apparent positive effect of high-density attritioning and also the effect of a high-intensity magnetic separator on the quality of the final product.

Results from this testwork also supported the Mineral Resource Estimates (**MRE**) for reporting under the JORC Code and VRX Silica engaged experienced geological consultancy CSA Global to undertake the Maiden Resource Estimate for Arrowsmith North.

The testwork results confirmed VRX Silica's expectations for glassmaking quality sand at Arrowsmith and higher-quality sand at Muchea. They also justified a further iteration of testwork to investigate the potential for even higher-grade and higher-value products.

This testwork program has enabled the Company to send samples to prospective customers. A third iteration of bulk testwork was conducted during the period in order to fine tune the process.

Table 1: CDE Global Bulk Testwork results

Project	No. Samples in Composite	Al ₂ O ₃	CaO	Fe ₂ O ₃	K ₂ O	MgO	MnO	Na ₂ O	TiO ₂	LOI _{1000C}	SiO ₂ Calc.	SiO ₂ +LOI
		ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	%	%	%
Muchea	163	729	6	285	64	36	9	14	970	0.22	99.57	99.79
Arrowsmith North	120	9,081	33	3,290	960	107	20	90	1,648	0.43	98.04	98.47
Arrowsmith Central	58	10,992	92	2,711	2,582	107	64	208	2,487	0.42	97.65	98.07
Arrowsmith South	104	26,117	322	5,861	6,669	259	41	532	2,824	0.85	94.88	95.73

These results clearly demonstrate that glass-quality silica sand product (+99.5% SiO₂) can be produced from all project areas with the exception of Arrowsmith South and, as a consequence, Arrowsmith South has been excluded from the Arrowsmith development program at this stage.

The silica sand from Muchea will produce a high-quality product with very low impurities, particularly iron.

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The CDE Global testwork highlighted the potential for further improvements by utilising specialist processing equipment in the attritioning and magnetic separation steps. The attrition test uses a high-speed shaft with paddles at a high slurry density of 75% solids to liberate fine particles.

The magnetic separation step involved pumping a slurry through a magnetised matrix “Hi Intensity Magnetic Filter”, which separates the feed into three distinct fractions: magnetics, middlings and non-magnetics, dependent on the magnetic susceptibility of the individual sand grains.

Table 2 below shows the results of the magnetic separation tests for the four project areas. The results demonstrate that a HI Filter can very effectively separate out the pure quartz grains from those which contain deleterious elements.

Table 2: Magnetic Separation Results

Project	Sample Description	Mass	Al ₂ O ₃	CaO	Cr ₂ O ₃	Fe ₂ O ₃	K ₂ O	MgO	MnO	Na ₂ O	TiO ₂	LOI _{1000C}	SiO ₂ +LOI
		%	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	ppm	%	%
Mucua Magnetic Separation	Magnetics	0.41%	1,245	175	14	2,521	196	128	57	117	3,756	0.21%	99.18%
	Middlings	7.31%	335	50	2	90	51	14	1	30	207	0.05%	99.92%
	Non Magnetic	92.27%	262	49	2	68	38	12	1	21	179	0.10%	99.94%
Arrowsmith North Magnetic Separation	Magnetics	0.63%	5,069	403	75	15,456	904	518	433	126	22,668	0.39%	95.43%
	Middlings	9.33%	1,762	48	3	453	238	22	2	36	255	0.10%	99.72%
	Non Magnetic	90.04%	1,797	46	3	414	276	20	2	33	198	0.90%	99.72%
Arrowsmith Central Magnetic Separation	Magnetics	0.71%	16,006	424	419	44,243	1,379	471	834	141	36,954	1.08%	89.91%
	Middlings	11.24%	2,863	71	5	749	827	31	7	74	676	0.18%	99.47%
	Non Magnetic	88.06%	2,566	68	3	341	785	22	2	69	267	0.13%	99.59%

The Company's ASX announcement of 20 September 2018 contained detailed images of the CDE Global flowsheet, the composite drill hole locations for both Arrowsmith and Mucua, tables showing grades and bulk testwork results, comparison charts of raw material vs attritioned and washed samples as well as the CDE Global lab scale attrition cell.

The CDE Global testwork results confirmed that the Mucua, Arrowsmith North and Arrowsmith Central projects can produce a sought-after product for glassmaking. This enabled a JORC Code compliant Mineral Resource to be estimated for these projects and CSA Global were engaged to commence work on the Arrowsmith North Mineral Resource estimate, which was completed during the period.

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Maiden Mineral Resource Estimate for Arrowsmith North

VRX Silica engaged CSA Global to prepare a maiden Mineral Resource estimate (**MRE**) for the Arrowsmith North target area reportable under the guidelines of the JORC Code. On 2 October 2018 the Company announced the Arrowsmith North MRE comprises 193.6 Mt @ 98% SiO₂ reported in accordance with the JORC Code. The MRE exceeds the previous Exploration Target of 100 to 140 million tonnes at 95% to 98% SiO₂.

The MRE is based on the results obtained from 62 hand auger drill holes to a depth of 4-5 metres for 235.6m and defines two silica sand types, white and yellow sand, geologically logged and differentiated based on colour and through chemical analysis results. Based on metallurgical testwork completed to-date, both sand types are readily amenable to upgrading by conventional washing and screening methods to produce a high-purity silica sand product with high mass recoveries. The high-purity silica sand product specifications are expected to be suitable for industries such as glass making. The MRE results are shown in Table 3.

Table 3: Arrowsmith North Mineral Resource

Classification	Domain	Million Tonnes	SiO ₂ %	Al ₂ O ₃ %	Fe ₂ O ₃ %	LOI%	TiO ₂ %
Inferred	Yellow Sand	149.4	97.7	1.1	0.4	0.5	0.2
	White Sand	44.2	99.1	0.3	0.1	0.2	0.2
	All Sand	193.6	98	0.9	0.3	0.4	0.2

**Note: Interpreted mineralisation is domained into different sand types based on drill logging data and publicly available soil mapping information, above a basal surface wireframe defined based on the current drill sampling depths. Depletion zones include the upper 0.5 m for rehabilitation purposes, and minor swamp zones in the east and south of the modelled area. Differences may occur due to rounding.*

The Mineral Resource is classified as Inferred according to the principles contained in the JORC Code. Material that has been classified as Inferred was considered by the Competent Person to be sufficiently informed by geological and sampling data to imply but not verify geological and grade continuity between data points.

The project area is a substantial prominent dune system that has only been tested with shallow auger. The approved POW provides for the infill of the Arrowsmith North Inferred Mineral Resource and adding to it substantially with the intention of upgrading the resource to an Indicated category. This drilling will be done by an Aircore drill rig which will not have the depth limitations of the hand auger technique and the full depth of sand will be drill tested. It will improve the JORC Code classification, deepen and extend the current Mineral Resource and is expected to be completed in March 2019.

The drilling program will consist of 105 holes with an average depth of 11.3m (in comparison, the average depth of hand auger holes was 3.8m) and will commence early in 2019 due to limited drill rig availability, the requirement for native title heritage clearance and the conditions of the Company's Dieback Management Plan, which has been accepted by DMIRS and added to the tenement conditions for the POW areas.

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Arrowsmith North Mining Lease Application

On 24 December 2018, VRX Silica announced the lodgement of its first silica sand Mining Lease Application, MLA70/1389 at its Arrowsmith North prospect. At 73mt @ 97.7% SiO₂ the MLA Resource is only a small portion of the total Resource of 193.6 Mt @ 98% SiO₂ but is expected to increase with deeper drilling than the hand-auger sampling previously undertaken and used to estimate the Resource. This Resource at the Company's Arrowsmith North prospect was previously announced as, "Arrowsmith North Maiden Mineral Resource" on 2 October 2018.

This is the first of three Mining Lease applications that the Company will lodge in the short term and this Mining Licence Application will enable the Company to apply for a Mining Permit at Arrowsmith North in the 2019 calendar year.

The Company recently announced that it has received interest from potential offtake partners for silica sand in quantities and grades that can be supplied from the Arrowsmith Silica Sand Project, "Three LOIs for Silica Sand Offtake" of 11 December 2018.

The Arrowsmith North Mining Lease Application MLA70/1389 has an area of 1,728Ha, see Table 4 below, and covers part of the Exploration Licences E70/5027 and E70/5109, as shown in Figure 1, which were granted on 14/06/2018 and 14/08/2018 respectively.

Table 4: Arrowsmith North Mining Lease Application tenement details

Tenement	Holders	Application date	Area (km ²)
MLA70/1389	Ventnor Mining Pty Ltd	21/12/2018	17.3

CSA Global has reported the Mineral Resource located within the MLA boundary and is summarised in Table 5, below.

Table 5: Arrowsmith North Silica Sand Mineral Resource estimate within MLA

Classification	Million Tonnes	SiO ₂ %	Al ₂ O ₃ %	Fe ₂ O ₃ %	TiO ₂ %	LOI%
Inferred	73.2	97.7	1.1	0.4	0.2	0.5
* Note: Mineral Resources are reported only from within the VRX nominated MLA and form a subset of the total Arrowsmith North Mineral Resources as reported to the ASX on 2 October 2018. Differences may occur due to rounding.						

Having established the Arrowsmith North Mineral Resource Estimate during the period, VRX Silica continued working towards the Mineral Resource Estimate at the Company's Muchea Project which was also completed during the period.

A further iteration of testwork was commenced by CDE Global using a refined flow sheet to incorporate additional attritioning to further improve the quality of the potential final products for Muchea, Arrowsmith North and Arrowsmith Central. The next step from the results of this work will be a process circuit design and engineering which will allow for capital cost estimates to be generated.

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Maiden Mineral Resource Estimate for Muchea

On 20 November 2018 VRX Silica announced the results from the independent estimate of the Mineral Resource at its Muchea Silica Sand Project (**Muchea Project**), which is located 50km north of Perth.

The Mineral Resource estimate (**MRE**) for the Muchea Project comprises a combined total of Indicated and Inferred Mineral Resources of 191 Mt @ 99.6% SiO₂ reported in accordance with the JORC Code. The Indicated component of the MRE comprises 19 Mt @ 99.7% SiO₂, with the Inferred component being 172 Mt @ 99.6% SiO₂.

The MRE was carried out by CSA Global and based on 44 hand auger drill holes for 260.7 m and 46 aircore holes for 522 m carried out by VRX Silica as part of its due diligence exercise during the March 2018 quarter, prior to the acquisition of the Muchea Project in July 2018.

The MRE results are shown in Table 6.

Table 6: Muchea White Silica Sand Mineral Resource Estimate as at November 2018

Classification	Million Tonnes	SiO ₂ %	Al ₂ O ₃ %	Fe ₂ O ₃ %	TiO ₂ %	LOI%
Indicated	19	99.7	0.03	0.03	0.08	0.2
Inferred	172	99.6	0.04	0.02	0.08	0.2
Indicated + Inferred	191	99.6	0.04	0.02	0.08	0.2

**Note: Interpreted white silica sand mineralisation is domained above a basal surface wireframe defined based on drill logging data. The upper (overburden) layer within 0.5 m of surface is depleted from the modelled silica sand unit, being reserved for rehabilitation purposes. All classified silica sand blocks in the model are reported. Differences may occur due to rounding.*

The large Maiden MRE of high-grade silica sand supports the Company's belief that Muchea is a world class high-grade deposit, which can be processed to supply almost any grade sand for glassmaking in Asia.

The area of the Inferred Mineral Resource estimate is predominately based on shallow hand auger results and has the potential to be deeper with a significantly larger Mineral Resource. The MRE defines the upper white silica sand layer, geologically logged and differentiated based on colour and chemical analysis results.

The Company believes that the Indicated Mineral Resource area is adequate for detailed mining studies, and closer spaced drilling will also extend the area and tonnage for a potential Ore Reserve.

On 29 January 2019, VRX Silica lodged its December Quarterly Activities Report which contained a detailed analysis of the geological explanations of the silica sand deposits in Western Australia and in particular, that of Muchea. The detail provided was extensive and the images were complete and readers requiring that level of information are referred to the 29 January 2019 ASX announcement and in particular the headings **Silica Sand Geology** and **Silica Sand Geology – Muchea**.

Maiden Mineral Resource Estimate for Arrowsmith Central

On 13 December 2018, VRX Silica Limited announced the results from the independent estimate of the Mineral Resource at its Arrowsmith Central prospect. The results are based on an exploration program of 39 hand-held auger drill holes and is an acceptable standard for use in a Mineral Resource estimate publicly reported in accordance with the JORC Code.

The Resource area is a small portion of the tenement area, adequate for initial mining studies which can be increased substantially with future aircore drilling over an increased area. Additional drilling will be conducted in March 2019 with the Company having recently completed an extensive Aboriginal Heritage survey with representatives of the Southern Yamatji claimant group for a more intensive and wider ranging drill program.

The Arrowsmith Central Project is immediately adjacent to the Eneabba – Geraldton rail line, which offers a unique low capex logistics solution to export bulk products out of Geraldton.

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The exploration program also provided a bulk sample which was used for the second and third iteration of metallurgical testwork and has verified that the sand can be beneficiated to glass-making quality (VRX Silica announcement 20 September 2018). An additional testwork program, which is underway, is investigating the recovery and quality of products for the foundry industry, particularly in South Korea.

VRX Silica engaged CSA Global to prepare a maiden Mineral Resource estimate (**MRE**) for the Arrowsmith Central target area reportable under the guidelines of the JORC Code. Arrowsmith Central is part of the Arrowsmith Project, 270km north of Perth. See Figure 1 above.

The MRE for the Arrowsmith Central Deposit comprises 28 Mt @ 97.7% SiO₂ reported in accordance with the JORC Code. The MRE is based on the results obtained from 39 hand-auger drill holes for 98.6 m and defines the modelled silica sand layer. Based on metallurgical testwork completed to-date, the silica sand at Arrowsmith Central is readily amenable to upgrading by conventional washing and screening methods to produce a high-purity silica sand product with high mass recoveries expected to be suitable for industries such as glass making.

The MRE results are shown in Table 7.

Table 7: Arrowsmith Central Mineral Resource

Classification	Million Tonnes	SiO ₂ %	Al ₂ O ₃ %	Fe ₂ O ₃ %	K ₂ O%	TiO ₂ %	LOI%
Inferred	28	97.7	1.2	0.3	0.3	0.2	0.5

*Note: Interpreted silica sand layer is domained above a basal surface wireframe defined based on the current drill sampling depths. A depletion zone consisting of the upper 0.5 m is reserved for rehabilitation purposes, is not estimated or reported. Differences may occur due to rounding.

This resource adds to the two previously announced silica sand resources, Arrowsmith North, "Arrowsmith North Maiden Mineral Resource" 2 October 2018, and Muchea, "Muchea Silica Sand Project Maiden Resource" 20 November 2018 (see Table 8).

Table 8: Total Silica Sand Mineral Resource, Arrowsmith North, Arrowsmith Central and Muchea

	Indicated		Inferred		Total	
	Tonnes	Grade	Tonnes	Grade	Tonnes	Grade
Prospect	(millions tonnes)	(% SiO ₂)	(millions tonnes)	(% SiO ₂)	(millions tonnes)	(% SiO ₂)
Arrowsmith North			193.6	98.0%	193.6	98.0%
Arrowsmith Central			28	97.7%	28	97.7%
Muchea	19	99.7%	172	99.6%	191	99.6%
Total	19	99.7%	393.6	98.7%	412.6	98.7%

Mineral Resource Estimate - Drilling

Drilling over the Arrowsmith project area has been completed by means of hand auger (see Figure 3) with hole depths ranging from 1.2 m to 7 m and an average depth of 3.8 m. Drilling has been completed along existing tracks, that form a nominal 800 m section line spacing, with drill spacing of 400 m to 1,000 m apart along the section lines.

Drilling over the Muchea project area has been completed by means of hand auger and aircore drilling. Auger hole depths ranged from 1.8m to 11.4m with an average depth of 5.4m, while aircore drill hole depths ranged from 6m to 36m with an average depth of 11.7m. Drilling has been completed at a nominal 400m spacing along existing tracks, which are nominally between 400m and 1,200m apart, thus forming a somewhat irregular drilling pattern. Two pairs of close spaced (~<10m) auger / aircore drill hole twin holes have been drilled, along with a further two pairs at roughly 100m apart and a pair of auger holes ~35m apart.



Figure 3: Hand auguring sand at Arrowsmith

Mineral Resource Modelling

The Arrowsmith Mineral Resource is estimated above 3-d wireframe basal surfaces for the white and yellow sands. These basal surfaces are nominally limited to the auger drill hole depths, it should be noted that the full depth of silica sand was not tested due to the sampling methodology. The modelled extents are limited to within the nominated Arrowsmith North target area based on the geological boundaries defined by logged sand types from the drill data and with reference to the publicly available soil mapping data. The overburden, reserved for rehabilitation, forms the upper boundary of the estimated Mineral Resource and is depleted from the reported Mineral Resource. Comparatively minor areas that are mapped as swamp or sandy swamp are also depleted from the Mineral Resource.

Despite both white and yellow sands being readily amenable to beneficiation, they have been separately interpreted, as they are separately estimated due to differences in grades of the various mineral components.

The Muchea Mineral Resource is estimated above a 3D wireframe basal surface for the uppermost white silica sand layer. Based on analysis of the results from the drilling data this basal surface appears to nominally follow the topographic surface. Only the uppermost white silica sand layer has been modelled at this stage despite the evidence in the deeper AC holes for additional white silica sand and yellow sand layers occurring below. This is due to the limitations on depth sampled from auger drilling, the variable depths of AC drilling and the drill hole spacing making interpretation of the geological extents of these layers difficult.

The basal surface of the uppermost white silica sand is interpreted based on the geological logging, chemical analysis results and chip photography from the auger and AC drilling and with reference to the topographic surface and publicly available soil mapping data. The modelled extents are limited to

DIRECTORS' REPORT

within the Ventnor nominated Muchea target area and are extrapolated to a nominal maximum of 400 m away from the drilling data. It should be noted that for some auger holes the full depth of the uppermost white silica sand layer was not tested due to the limitations of the sampling methodology. The modelled basal surface therefore does not necessarily represent the full sand layer thickness over parts of the auger drilled area.

Over a small area in the central west of the modelled area the surface white silica sand layer is overlain by a minor clay in white sand zone, defined by the Al_2O_3 content being nominally above 1%. The basal surface of this material has been modelled and it forms the upper boundary surface of the modelled white silica sand layer in this part of the model. This material has not been grade estimated and is not reported as part of the MRE.

The surface humus layer is typically about 300 mm thick. In consultation with VRX Silica, CSA Global considered that the upper 500 mm (overburden) is likely to be reserved for rehabilitation purposes. This overburden surface forms the upper boundary of the estimated Mineral Resource and is depleted from the reported Mineral Resources.

Mineral Resource Classification

The Mineral Resource is classified as Indicated and Inferred according to the principles contained in the JORC Code. Material that has been classified as Indicated was considered by the Competent Person to be sufficiently informed by adequately detailed and reliable geological and sampling data to assume geological and grade continuity between data points. Material that has been classified as Inferred was considered by the Competent Person to be sufficiently informed by geological and sampling data to imply but not verify geological and grade continuity between data points.

Warrawanda Project

The Company continues to maintain the Warrawanda exploration licence tenements.

Work conducted in 2017 on its nickel exploration target has highlighted an EM anomaly from one of the Company's Fixed Loop EM Surveys. The Company will further investigate the anomaly with a drill hole planned for 2019.

The tenements also hold significant potential for High Purity Quartz (as announced to ASX on 5 March 2019) and the Company will further evaluate the outcrops of quartz with a diamond drill program in 2019.

Competent Persons' Statements

The information in this report that relates to Exploration Results is based on data collected under the supervision of Mr David Reid, in his capacity as Exploration Manager. Mr Reid, BSc (Geology), is a registered member of the Australian Institute of Geoscientists and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and the activity being undertaken to qualify as a Competent Person under the 2012 edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Reid consents to the inclusion of the data in the form and context in which it appears.

The information in this report that relates to Mineral Resources is based on information compiled by Mr Grant Louw who is a full-time employee of CSA Global, under the direction and supervision of Dr Andrew Scogings, who is an Associate of CSA Global. Dr Scogings is a Member of the Australasian Institute of Mining and Metallurgy and a Member of the Australian Institute of Geoscientists. He is a Registered Professional Geologist in Industrial Minerals. Dr Scogings has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as Competent Person as defined in the JORC Code. Dr Scogings consents to the disclosure of information in this report in the form and context in which it appears.

ASX Listing Rule 5.8.1 Summary

The following summary presents a fair and balanced representation of the information contained within the Mineral Resource Estimate (MRE) technical report:

- Silica sand mineralisation at the Muchea Project occurs within the Bassendean Sand, which extends along the Swan coastal plains of the Perth Basin, parallel to the coast. (ASX LR 5.8.1 geology & geological interpretation)
- Samples were obtained from auger and aircore drilling. Quality of drilling/sampling and analysis, as assessed by the Competent Person, is of an acceptable standard for use in a Mineral Resource estimate publicly reported in accordance with the JORC Code. (ASX LR 5.8.1 Sampling & 5.8.1 Drilling)
- Major and trace elements apart from SiO₂ were analysed using a four-acid digest followed by Inductively Coupled Plasma Optical (Atomic) Emission Spectrometry (ICP-OES) analysis at the Intertek Genalysis, Perth laboratory. Loss on Ignition at 1000°C (LOI) was analysed by Thermal Gravimetric Analyser. SiO₂ was back-calculated by subtracting all ICP major and trace elements plus LOI from 100%, as this is the most accurate way of determining SiO₂ content for samples with very high SiO₂. Certain of the ICP results were verified by X-Ray Fluorescence (XRF) analyses. (ASX LR 5.8.1 Analysis)
- The Mineral Resources were estimated above a 3D wireframe basal surface for the uppermost white silica sand layer. The basal surface is interpreted based on the geological logging, chemical analysis results and chip photography and the extents are limited to within the Ventnor nominated Muchea target area. The surfaces are based on the geological boundaries defined by logged sand types from the drill data and with reference to the publicly available soil mapping data. The surface humus layer is typically about 300 mm thick. In consultation with Ventnor, CSA Global considered that the upper 500 mm (overburden) is likely to be reserved for rehabilitation purposes. This overburden surface forms the upper boundary of the estimated Mineral Resource and is depleted from the reported Mineral Resources. (ASX LR 5.8.1 Estimation methodology)
- Grade estimation was completed using Ordinary Kriging with an inverse distance weighting to the power of two validation check estimate also completed. (ASX LR 5.8.1 Estimation methodology)
- The Mineral Resource is quoted from all classified blocks above the defined basal surface wireframe for the upper white silica sand layer and below the overburden surface layer. (ASX LR 5.8.1 cut-off grades)
- The Mineral Resources are classified as Indicated and Inferred based on drill hole logging, drill hole sample analytical results, drill spacing, geostatistical analysis, confidence in geological continuity, and metallurgical / process test results. (ASX LR 5.8.1 classification)
- Roughly 10% of the interpreted mineralisation is considered extrapolated.
- The JORC Code Clause 49 requires that industrial minerals must be reported “in terms of the mineral or minerals on which the project is to be based and must include the specification of those minerals” and that “It may be necessary, prior to the reporting of a Mineral Resource or Ore Reserve, to take particular account of certain key characteristics or qualities such as likely product specifications, proximity to markets and general product marketability.” (ASX LR 5.8.1 Mining, metallurgy & economic modifying factors)
- Therefore, the likelihood of eventual economic extraction was considered in terms of possible open pit mining, likely product specifications, possible product marketability and potentially favourable logistics and it is concluded that the Muchea silica sand deposit is an industrial Mineral Resource in terms of Clause 49. (ASX LR 5.8.1 Mining, metallurgy & economic modifying factors)

Corporate

Acquisition of Wisecat and Muchea, Capital Raising and ASX Reinstatement

On 30 July 2018, the Company announced that it had acquired 100% of the issued capital of Wisecat Pty Ltd (**Wisecat**), which held an option to acquire Muchea (tenement E70/4886) from Australian Silica Pty Ltd (**Australian Silica**). The consideration for the acquisition of Wisecat was 8,333,333 fully paid ordinary shares in the Company (**VRX Shares**), and these were issued to Goldfire Enterprises Pty Ltd (**Goldfire**), the sole shareholder of Wisecat, on 1 August 2018.

Also on 30 July 2018 the Company announced that Wisecat had entered into a tenement acquisition agreement with Australian Silica to purchase tenement E70/4886, in lieu of the option. The Muchea tenement acquisition was on the following terms:

- Initial issue of 10,000,000 VRX Shares to Australian Silica. The VRX Shares were issued on 1 August 2018.
- The Issue, subject to shareholder approval, of 55,000,000 VRX Shares and 20,000,000 options to acquire VRX Shares, at an issue price of 0.001 cent per option, exercisable on or before 30 June 2021 at 10 cents. VRX Silica shareholder approval was obtained on 14 September 2018 and the VRX Shares and options were issued to Australian Silica on 19 September 2018.
- The issue of 5,000,000 options on the same terms to Goldfire for assisting in facilitating the transaction structure for the acquisition of the Muchea tenement.
- Wisecat will pay Australian Silica an ongoing net production royalty of 1% on gross revenue on all product sold from minerals mined from the Muchea tenement minus allowable deductions.

At the same time, the Company received firm commitments for a capital raising of \$2.4 million from professional and sophisticated investors by the issue of 40 million VRX Shares at \$0.06 each, including \$207,000 (3,450,000 VRX Shares) committed by VRX Silica directors, subject to shareholder approval (**Capital Raising**). The first tranche of the Capital Raising (to non-related party applicants) was completed on 1 August 2018.

ASX reinstated the Company's shares to trading on 2 August 2018.

Shareholder approval sought for the issue of the VRX Shares and options was obtained on 12 September 2018 and the balance of the securities under the Capital Raising and for the acquisition of Wisecat and Muchea were issued on 19 September 2018.

Appointment of International Sales Manager

On 27 November 2018, VRX Silica announced the appointment of Mr Yoonil Kim to the position of International Sales Manager.

Mr Kim was born in South Korea where he completed his education, including degrees in environmental management systems and international trade. He has had fifteen years' experience marketing Silica Sand to glass manufacturers and foundries in Korea, Japan, Taiwan, Thailand, Philippines, Malaysia, Cambodia and China.

He has a demonstrated capacity to engage glass manufacturers, paint manufacturers and foundry clients in South East Asia and will be based in Kuala Lumpur, Malaysia, from where he can easily service the Asian markets.

VRX Silica views the appointment of Mr Kim as an important step in the Company's plans to become an exporter of high-quality Silica Sand to the Asia/Pacific region.

DIRECTORS' REPORT

Change of Company Name

Shareholders at the Company's AGM on 30 November 2018 voted unanimously to change the Company name to **VRX Silica Ltd** and on 6 December 2018 Ventnor Resources Ltd advised the market that as of that date **VRX Silica Ltd** will be the name of the Company; however the ASX ticker code will remain as VRX.

The new name of **VRX Silica Ltd** removes any ambiguity as to the commodity in which the Company is specialising and better reflects the Company's objective of becoming a large scale supplier of silica sand to the global market and will be easily identified by international customers and potential clients.

Option over Biranup Project and Farm-In JV

VRX Silica announced on 15 November that the Company had entered into an option agreement with Metalicity Limited (ASX:MCT) (**MCT**) for MCT to acquire a 40% interest in the Company's Biranup Project (**Project**) and a farm-in and joint venture arrangement for the balance of the Project. Biranup Project details are in the Company's 2018 Annual Report.

The key terms of the option agreement are as follows:

- MCT to pay the Company a \$20,000 option fee to secure an exclusive 3-month option period.
- If the option is exercised, the purchase price for a 40% interest in the Project is \$500,000, payable in cash and/or MCT shares at MCT's discretion.
- Following exercise the parties will enter into a farm-in arrangement, whereby MCT may earn a further 20% by spending \$1 million and a further 20% by spending an additional \$1 million (to an aggregate 80% interest), following which the parties will form a joint venture to fund the Project on a pro-rata basis or the Company's interest to dilute to a net smelter royalty.

Three LOIs for Silica Sand Offtake

On 11 December 2018 VRX Silica Ltd announced that it has received three non-binding Letters of Intent (**LOIs**) for the offtake of an aggregate 590,000 tonnes of silica sand per annum from the Company's silica sand projects.

The LOIs have been received from a diverse range of silica sand distributors in the Asia-Pacific region – the Company's primary target market for the supply of silica sand – to supply silica sand to different countries for a range of industries.

VRX Silica noted at the time that the receipt of these three LOIs supported the Company's research that there is significant demand for silica sand products of the type capable of production from the Company's Arrowsmith and Muchea silica sand projects. This is a solid foundation for the Company's initial aim of establishing demand for more than 1 million tonnes per annum from each individual project area.

Details of the distributors and the LOIs generally are set out below:

Si Resources Corporation – Philippines: Si Resources Corporation (**SRC**) is a wholly owned subsidiary of Rock Energy International Corporation; during the last two decades it has been one of the leading distributors of imported silica sand within the Philippines.

SRC is located in Manila South Harbour, Philippines, and supplies the Philippine glass bottle manufacturing industry with 110,000 tonnes of silica sand annually as well as supplying other industrial users of silica sand, creating a total annual demand of 290,000 tonnes.

SRC's LOI covers the supply of this tonnage annually from the Company with pricing dependent on final specification. The specification sought by SRC can be met from Arrowsmith production.

DIRECTORS' REPORT

Shanghai GEEYEAH International Trading Co., Ltd – China: Shanghai GEEYEAH International Trading Co., Ltd (SGI) is located in Pudong New District, Shanghai, China and is a leading supplier of silica sand for more than 15 years to the fibreglass market and more recently to the solar panel cover glass market.

SGI's LOI covers the supply of 200,000 tonnes per annum, subject to final price and specification, for a period of five years. The specification sought by SGI can be met from Muchea production.

Dong A Heung-Eop Mining Co., Ltd – Republic of Korea: Dong A Heung-Eop Mining Co., Ltd (DAHEM) of Busan, Republic of Korea, has been one of the leading suppliers of casting sand to the Korean foundry industry for more than 50 years.

DAHEM's LOI covers the supply of 100,000 tonnes of high purity silica sand per annum with pricing dependent on final specification. The specification sought can be met from Arrowsmith production.

Capacity for Supply

The Company is confident from exploration and testwork conducted to-date that it can readily meet the specifications and tonnage sought under the LOIs from the Company's two silica sand projects in Western Australia - Muchea and Arrowsmith.

CHANGES IN STATE OF AFFAIRS

During the half-year ended 31 December 2018 there was no significant change in the entity's state of affairs other than that referred to in the half-year financial statements or notes thereto.

EVENTS SUBSEQUENT TO THE PERIOD

There are no other matter or circumstances which have arisen since the end of the half-year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial periods, other than as disclosed in Note 10 to the financial statements.

AUDITOR'S DECLARATION OF INDEPENDENCE

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 in relation to the review for the half-year ended 31 December 2018 is included within this financial report.

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

On behalf of the directors



Bruce Maluish
Director

Perth, 12 March 2019

STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 31 December 2018

	Consolidated	
	31 December 2018	31 December 2017
	\$	\$
Continuing operations		
Revenue	35,900	37,938
Exploration and evaluation expenditure	(180,917)	(192,458)
Depreciation	(879)	(780)
Directors fees and benefits expense	(189,500)	(79,750)
Share based payments	(1,295,850)	(302,750)
Corporate and administration expenses	(628,038)	(382,072)
Loss before income tax expense	(2,259,284)	(919,872)
Income tax expense	-	-
Net loss for the period	(2,259,284)	(919,872)
Other comprehensive income	-	-
Other comprehensive income for the period, net of tax	-	-
Total comprehensive loss attributable to members of VRX Silica Limited	(2,259,284)	(919,872)
Basic and diluted loss per share (cents per share)	(0.68)	(0.41)

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

		Consolidated	
		31 December 2018	30 June 2018
		\$	\$
	Note		
ASSETS			
Current Assets			
Cash and cash equivalents		1,152,808	276,936
Trade and other receivables		179,661	153,547
Total Current Assets		1,332,469	430,483
Non-Current Assets			
Trade and other receivables		45,184	45,184
Plant and equipment		8,813	4,546
Deferred exploration expenditure	2	8,639,180	2,634,453
Total Non-Current Assets		8,693,177	2,684,183
Total Assets		10,025,646	3,114,666
LIABILITIES			
Current Liabilities			
Trade and other payables		356,091	200,449
Provisions		65,148	74,304
Total Current Liabilities		421,239	274,753
Total Liabilities		421,239	274,753
Net Assets		9,604,407	2,839,913
EQUITY			
Issued capital	3	28,500,626	21,448,698
Reserves		3,895,356	1,923,506
Accumulated losses		(22,791,575)	(20,532,291)
Total Equity		9,604,407	2,839,913

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2018

Consolidated	Issued Capital \$	Reserves \$	Accumulated Losses \$	Total Equity \$
Balance at 1 July 2018	21,448,698	1,923,506	(20,532,291)	2,839,913
Loss for period	-	-	(2,259,284)	(2,259,284)
Total comprehensive loss for period	-	-	(2,259,284)	(2,259,284)
Securities issued during the period	7,075,000	-	-	7,075,000
Capital raising costs	(23,072)	-	-	(23,072)
Cost of share based payments	-	1,971,850	-	1,971,850
Balance at 31 December 2018	28,500,626	3,895,356	(22,791,575)	9,604,407
Balance at 1 July 2017	20,571,809	1,620,756	(18,750,814)	3,441,751
Loss for period	-	-	(919,872)	(919,872)
Total comprehensive loss for period	-	-	(919,872)	(919,872)
Securities issued during the period	724,382	-	-	724,382
Capital raising costs	(461)	-	-	(461)
Reduction of capital on demerger of subsidiary	(100,000)	-	-	(100,000)
Cost of share based payments	-	302,750	-	302,750
Balance at 31 December 2017	21,195,730	1,923,506	(19,670,686)	3,448,550

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS
For the half-year ended 31 December 2018

	Consolidated 31 December 2018 \$	31 December 2017 \$
Cash flows from operating activities		
Payments to suppliers and employees	(848,393)	(433,900)
Interest received	2,748	2,135
Other income	26,075	20,375
Net cash outflows used in operating activities	(819,570)	(411,390)
Cash flows from investing activities		
Expenditure on mining interests	(676,340)	(412,568)
Payment for plant and equipment	(5,146)	-
Cash disposed on demerger of subsidiary	-	(100,000)
Net cash outflows used in investing activities	(681,486)	(512,568)
Cash flows from financing activities		
Proceeds from issue of shares	2,400,000	886,360
Payment of capital raising costs	(23,072)	(461)
Net cash provided by financing activities	2,376,928	885,899
Net increase/(decrease) in cash held	875,872	(38,059)
Cash at beginning of the half-year	276,936	1,227,791
Cash at end of the half-year	1,152,808	1,189,732

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2018

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

These general purpose interim financial statements for the half-year reporting period ended 31 December 2018 have been prepared in accordance with Australian Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Act 2001*. The consolidated entity is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

This interim financial report does not include full disclosures of the type normally included in an annual report. It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2018 and any public announcements made by VRX Silica Limited during the half-year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies have been consistently applied with those of the previous financial year and corresponding interim reporting period, except in relation to the matters disclosed below.

New and Revised Accounting Standards

The consolidated entity has adopted all of the new and revised Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that are mandatory for the current reporting period. The adoption of these new and revised Accounting Standards and Interpretations has not resulted in a significant or material change to the consolidated entity's accounting policies.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted by the consolidated entity.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 9 Financial Instruments

The consolidated entity has adopted AASB 9 from 1 July 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2018

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AASB 15 Revenue from Contracts with Customers

The consolidated entity has adopted AASB 15 from 1 July 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

Impact of adoption

AASB 9 and AASB 15 were adopted using the modified retrospective approach and as such comparatives have not been restated. As a result of adopting AASB 9 and AASB 15, the consolidated entity has changed its accounting policies as detailed below. The impact of adoption on opening accumulated losses as at 1 July 2018 and on the current reporting period was determined to be not material.

Revenue recognition

The consolidated entity recognises revenue as follows:

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognised as deferred revenue in the form of a separate refund liability.

Sale of goods

Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery.

Rendering of services

Revenue from a contract to provide services is recognised over time as the services are rendered based on either a fixed price or an hourly rate.

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2018

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest

Interest revenue is recognised as interest accrues using the effective interest method.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Financial assets at fair value through profit or loss

Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include equity investments which the consolidated entity intends to hold for the foreseeable future and has irrevocably elected to classify them as such upon initial recognition.

Impairment of financial assets

The consolidated entity recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the consolidated entity's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2018

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2018

2. DEFERRED EXPLORATION EXPENDITURE

Costs carried forward in respect of areas of interest in the following phases:

	31 December 2018 \$	30 June 2018 \$
Exploration and evaluation phase – at cost	8,639,180	2,634,453
Movement		
Balance at beginning of half-year	2,634,453	
Acquisition of subsidiary (Note 4)	500,000	
Tenement acquisition	5,045,565	
Expenditure incurred	660,079	
Option on sale of share in project	(20,000)	
Expenditure written off	(180,917)	
Total deferred exploration expenditure	8,639,180	

Ultimate recoupment of exploration and evaluation expenditure carried forward is dependent on successful development and commercial exploitation or, alternatively, sale of the relevant areas of interest, at amounts at least equal to book value.

3. ISSUED CAPITAL

	31 December 2018 \$	30 June 2018 \$
Issued Capital		
Ordinary shares – fully paid	28,500,626	21,448,698
Movement in ordinary shares on issue	Number	\$
<i>Ordinary shares – fully paid</i>		
Balance at beginning of half-year	251,319,868	21,448,698
Issued as consideration for acquisition of subsidiary (Note 4)	8,333,333	500,000
Issued for cash pursuant to placement to investors	36,550,000	2,193,000
Expense of issue	-	(23,072)
Issued as consideration for acquisition of tenement	10,000,000	600,000
Issued as consideration for acquisition of tenement	55,000,000	3,575,000
Issued for cash pursuant to placement to directors	3,450,000	207,000
Balance at end of half-year	364,653,201	28,500,626

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2018

4. ACQUISITION OF SUBSIDIARY

On 30 July 2018, the Company announced that it had acquired 100% of the issued capital of Wisecat Pty Ltd ("Wisecat"). As Wisecat held the option to acquire the Muchea Tenement (E70/4886) ("Muchea Option"), with no inputs or outputs being acquired, the acquisition was assessed as an asset acquisition rather than a business combination.

The full consideration for the acquisition of Wisecat of 8,333,333 fully paid ordinary shares in the Company were issued to Goldfire Enterprises Pty Ltd ("Goldfire"), the sole shareholder of Wisecat, on 1 August 2018.

	\$
Purchase consideration	
Fair value of share consideration issued	500,000
	<u>500,000</u>
Net assets acquired	
Deferred exploration expenditure	500,000
	<u>500,000</u>

5. ACQUISITION OF MUCHEA TENEMENT

On 30 July 2018, the Company announced that Wisecat had entered into a tenement acquisition agreement with Australian Silica Pty Ltd ("Australian Silica") to purchase the Muchea Tenement (E70/4886) following the Company's acquisition of Wisecat.

The Muchea Tenement acquisition was on the following terms:

- Initial issue of 10,000,000 shares in the Company to Australian Silica. The shares were issued on 1 August 2018;
- Issue, subject to shareholder approval, 55,000,000 shares in the Company and 20,000,000 options, at an issue price of 0.001 cent per option. Each option is exercisable into a share in the Company on or before 30 June 2021 at 10 cents. Shareholder approval was obtained on 14 September 2018 and the shares and options were issued to Australian Silica on 19 September 2018; and
- Wisecat will pay Australian Silica an ongoing net production royalty of 1% on gross revenue on all product sold from minerals mined from the Muchea Tenement minus allowable deductions.

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2018

6. SHARE BASED PAYMENTS

During the half-year period, the following share based payments were incurred:

	Value per Option	Number	Value \$
Unlisted options exercisable at \$0.10 each on or before 30 June 2021, issued to Goldfire for assisting in facilitating the transaction structure for the acquisition of the Muchea Tenement	\$0.0338	5,000,000	169,000
Unlisted options exercisable at \$0.10 each on or before 30 November 2021, issued to employees and consultants	\$0.0409	5,500,000	224,950
Unlisted options exercisable at \$0.10 each on or before 30 November 2021, issued to consultants	\$0.1228	250,000	30,700
Unlisted options exercisable at \$0.217 each on or before 30 November 2021, issued to the Directors	\$0.0792	11,000,000	871,200
Expensed during the period			1,295,850
Unlisted options exercisable at \$0.10 each on or before 30 June 2021, issued as part consideration for Wisecat's acquisition of the Muchea Tenement	\$0.0338	20,000,000	676,000
			<u>1,971,850</u>

The unlisted options issued to Goldfire as a facilitation fee were approved by shareholders on 14 September 2018. The options were issued for nil consideration and vested immediately. The options were valued using the Black-Scholes model using an underlying share price of \$0.065, volatility of 100% and an interest rate of 2.04%.

The 5,500,000 unlisted options issued to employees and consultants in September 2018 were for nil consideration and vested immediately. The options were valued using the Black-Scholes model with an underlying share price of \$0.071, volatility of 100% and an interest rate of 2.085%.

In November 2018, 250,000 unlisted options were issued to consultants for nil consideration and vested immediately. The options were valued using the Black-Scholes model with an underlying share price of \$0.17, volatility of 100% and an interest rate of 2.12%.

The unlisted options issued to the Directors for nil consideration and vesting immediately were approved by shareholders on 30 November 2018. The options were valued using the Black-Scholes model using an underlying share price of \$0.145, volatility of 100% and an interest rate of 2.055%.

The unlisted options issued as part consideration for the acquisition by Wisecat of the Muchea Tenement were approved by shareholders on 14 September 2018. The options, issued at 0.001 cents per option and vesting immediately, were valued using the Black-Scholes model with an underlying share price of \$0.065, volatility of 100% and an interest rate of 2.04%.

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2018

7. SEGMENT INFORMATION

The Group has identified its operating segments based on the internal reports that are used by the Board (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by the Board based on the phase of operation within the mining industry. For management purposes, the Group has organised its operations into two reportable segments on the basis of stage of development as follows:

- Development assets
- Exploration and evaluation assets, which includes assets that are associated with the determination and assessment of the existence of commercial economic reserves.

The Board as a whole will regularly review the identified segments in order to allocate resources to the segment and to assess its performance.

During the half-year ended 31 December 2018, the Group had no development assets. The Board considers that it has only operated in one segment, being mineral exploration within Australia.

Where applicable, corporate costs, finance costs, interest revenue and foreign currency gains and losses are not allocated to segments as they are not considered part of the core operations of the segments and are managed on a Group basis.

The consolidated entity is domiciled in Australia. All revenue from external customers is generated from Australia only. Segment revenues are allocated based on the country in which the customer is located

Revenues of approximately Nil (2017: Nil) are derived from a single external customer.

8. DIVIDENDS

There have been no dividends declared or recommended and no distributions made to shareholders or other persons during the period. (2017: Nil)

9. CONTINGENT LIABILITIES AND ASSETS

Contingent liabilities

In connection with Wisecat's acquisition of the Muchea Tenement, Wisecat will pay Australian Silica an ongoing net production royalty of 1% on gross revenue on all product sold from minerals mined from the Muchea Tenement minus allowable deductions.

Other than the above royalty, there has been no change in contingent liabilities and contingent assets since the last annual reporting date.

NOTES TO THE FINANCIAL STATEMENTS

For the half-year ended 31 December 2018

10. EVENTS SUBSEQUENT TO REPORTING DATE

There are no matters or circumstances which have arisen since the end of the half-year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial periods, other than as follows:

On 4 February 2019, the Company announced that it had completed an agreement with Silatec Pty Ltd for the acquisition of the Boyatup Silica Sand Project which consists of a single tenement, E69/3560. The Company issued 2,000,000 shares on 18 February 2019 and paid \$10,000 in full consideration for the acquisition.

11. CONTROLLED ENTITIES

There are no changes to the controlled entities within the consolidated entity since the last annual reporting date, other than the below:

Name of entity	Country of incorporation	Class of Share	Equity Holding 31-Dec-18	Equity Holding 30-Jun-18
Wisecat Pty Ltd	Australia	Ordinary	100%	-

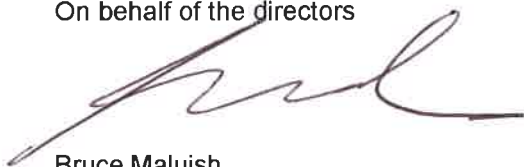
DIRECTORS' DECLARATION

In the opinion of the directors of VRX Silica Limited:

1. The financial statements and notes thereto of the consolidated entity, as set out within this financial report, are in accordance with the *Corporations Act 2001* including:
 - a. Complying with Accounting Standard AASB 134: Interim Financial Reporting, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - b. Giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year then ended.
2. There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in dark ink, appearing to read 'Bruce Maluish', written over a horizontal line.

Bruce Maluish
Director

Perth, 12 March 2019

RSM Australia Partners

Level 32 Exchange Tower
2 The Esplanade Perth WA 6000
GPO Box R1253 Perth WA 6844

T +61(0) 8 9261 9100

F +61(0) 8 9261 9111

www.rsm.com.au

**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF
VRX SILICA LIMITED**

We have reviewed the accompanying half-year financial report of VRX Silica Limited which comprises the statement of financial position as at 31 December 2018, the statement of comprehensive income, statement of changes in equity and 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 of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of VRX Silica Limited, 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.

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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 VRX Silica Limited, 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 VRX Silica Limited 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 2018 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

RSM

RSM AUSTRALIA PARTNERS

AL Whyte

ALASDAIR WHYTE
Partner

Perth, WA
Dated: 12 March 2019

RSM Australia Partners

Level 32 Exchange Tower
2 The Esplanade Perth WA 6000
GPO Box R1253 Perth WA 6844

T +61(0) 8 92619100

F +61(0) 8 92619111

www.rsm.com.au

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of VRX Silica Limited for the half-year ended 31 December 2018, 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


ALASDAIR WHYTE
Partner

Perth, WA
Dated: 12 March 2019

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