aurelia METALS Ltd.

Quarterly Report

for the period ending 30 June 2015

JUNE QUARTER SUMMARY

- Quarterly production of 4,125 oz gold and 6,234 dmt of Pb-Zn concentrate
- Adoption of the Hera Expansion Plan from 350 kt/y to 450 kt/y, subject to funding
- Debt restructure proposal with Glencore remains a work in progress
- A range of funding options being considered and assessed
- Impairment of Hera Asset probable in the range of $60-90 million
- Encouraging exploration results from Hebe prospect 1.5km southeast of Hera

OPERATIONS

- Ore processed of 75,660 t, grading 2.7 g/t gold, 2.5% lead and 3.3% zinc
- Improved grade reconciliations with positive results recorded in June and July
- Metal recoveries for the quarter were below plan at 62% gold, 86% lead and 66% zinc
- Metal production of 4,125 oz gold, 1,462 t payable lead and 1,178 t payable zinc
- EBITDA of negative $5.7M for the quarter, with above budget processing costs
- Expansion Study has been designed to rectify physical and cost performance

DEVELOPMENT

- Hera Expansion Study released with plant rectification and expansion capital of $16.8 million in FY16
- Potential for average annual gold production of 40,000 oz gold, 14000 t/y zinc, 12,500 t/y lead
- AISC over the life of mine of less than A$700/oz, after base metal credits
- Ability of the Company to progress the Expansion Project is contingent on sourcing external funding

EXPLORATION

- Drill intercept from one hole drilled of 5 m at 1.7% Pb and 1.3% Zn from 489 m at the Hebe Magnetic Anomaly, 1.5 km southeast of the Hera deposit

CORPORATE

- At 30 June 2015, the Company held cash in bank of $4.85 million ($3 million is restricted)
- A recapitalization of the balance sheet has been proposed to the Company's secured lender, involving a conversion of a portion of existing debt facilities together with a potential equity raising. As announced on 1 July 2015, Glencore lodged a notice of default, which if valid, would bar the debt conversion. The notice of default has been rejected by the Company
- The Company is working to remove the uncertainty around debt conversion, however discussions with Glencore are not finalised at the date of this report
- Near term funding is required and the Company is assessing a range of equity and debt alternatives
- All gold and base metal forwards and derivatives closed out in the quarter netting $1.4 million
- Directors believe that a prudent view of the carrying value of the Hera asset indicates an asset impairment in the range of $60-90 million is probable for the year ending 30 June 2015

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HERA OPERATIONS, NSW (100%)

SUMMARY

Commercial production was declared on the 1 April 2015. Performance in the June 2015 quarter has been below expectations due to a range of mechanical and technical issues which have affected gold and zinc recovery, processing throughput, and processing operating costs.

To deliver a step change in performance, certain sections of the plant require rectification, particularly the tertiary crushing circuit which will require replacement with a cone crusher and ball mill. The rectification step is planned to also deliver enhanced throughput capacity of up to 450,000 t/y (as detailed in the Hera Expansion Study Section).

Aurelia Metals Limited Production		**Commissioning Phase**	**Production Phase**	
	Units	**9 mths to 31 March**	**3 mths to 30 June Qtr**	**Total**
Ore Mined	t	154,019	69,319	223,338
Ore Mined Grade - Gold	g/t	3.57	2.56	3.26
Ore Mined Grade - Silver	g/t	14.2	11.6	13.4
Ore Mined Grade - Lead	%	2.89%	2.52%	2.77%
Ore Mined Grade - Zinc	%	4.17%	3.30%	3.90%
Ore Processed	t	147,555	75,660	223,215
Ore Processed Grade - Gold	g/t	3.02	2.73	2.92
Ore Processed Grade - Silver	g/t	14.70	12.80	14.05
Ore Processed Grade - Lead	%	2.65%	2.50%	2.60%
Ore Processed Grade - Zinc	%	3.51%	3.34%	3.45%
Recovery - Gold	%	61.5%	62.1%	61.7%
Recovery - Silver	%	89.4%	92.0%	90.3%
Recovery - Lead	%	86.2%	86.1%	86.2%
Recovery - Zinc	%	84.8%	65.8%	78.4%
Gold Production	**oz**	**8,805**	**4,125**	**12,930**
Silver Production	oz	4,729	2,517	7,246
Concentrate produced	DMT	14,539	6,234	20,773
Production - Payable Metal - Silver	oz	6,834	5,979	12,813
Production - Payable Metal - Lead	t	2,972	1,462	4,434
Production - Payable Metal - Zinc	t	3,155	1,178	4,333
Gold Sold	oz	8,004	4,384	12,388
Concentrate shipped	dmt	9,602	10,144	19,746
Payable Lead Sold	t	2,008	2,338	4,346
Payable Zinc Sold	t	2,100	1,983	4,083
Payable Silver Sold	oz	5,773	10,173	15,946

MINING

A total of 69,319 t of ore was mined during the quarter at an average grade of 2.6 g/t gold and 2.5% lead and 3.3% zinc. Ore was sourced from three active stopes with some 60-70% from stoping, the remainder from development.

Metal reconciliations were running approximately 10% below the predicted mine grades in April and May, but in June reconciliations were positive (up to 10%), and positive grade reconciliations being recorded July to date. Due to the nature of the mineralisation, grade reconciliations on a month to month basis are anticipated to be volatile.

Underground development of 215 m was comprised wholly of operating development. Mining activity is proceeding satisfactorily, with development activity in the June quarter reduced to take advantage of the development moving ahead of schedule in previous quarters. Development rates are planned to be similar in the September quarter and increasing to more normalized rates of 500-800 m in the December quarter.

Discussions are continuing with our mining contractor with a view to achieving a significant reduction in the current schedule of rates.

PROCESSING

A total of 75,660 t of ore was processed during the quarter at an average grade of 2.7 g/t gold, 2.5% lead and 3.3% zinc. Processing throughput, whilst showing improvement over the past nine months, is around 85% of nameplate capacity. Plant utilisation in the June quarter was 81% with an average processing rate of 43 t/h. Significant effort is being applied to improve throughput despite the limitations of the tertiary crushing circuit. A number of unplanned plant stoppages were experienced in the quarter relating to mechanical failures and power trips.

The gold room furnace was inoperable for most of the month of June resulting in delayed shipments of gold production. The furnace has returned to operations in July with a new larger furnace planned for installation in August.

Gold recovery was 62% and has shown limited improvement during the quarter. It should be noted that the calculated gold recovery for the quarter is lower than that estimated and shown in the ASX release on 7 July, due to an overestimation of the gold inventory balances at the end of June (now corrected). The lack of regular gold smelting during late May and June meant that the metallurgical balances were not able to be reconciled back to actual bullion produced during this time and a flaw in the theoretical calculation used resulted in an overestimation of gold inventory.

Gold recoveries of greater than 80% are considered achievable, particularly under the Hera Expansion Study, however gold recovery is currently being adversely impacted by poor plant stability, particularly within the leach, gravity and Merrill Crowe circuits.

The process plant has shown a considerable improvement in operating stability during the month of July. Throughput for the month was 91% of plan, inclusive of a planned maintenance shutdown completed on 21-22 July. Metal recoveries for the month are un-reconciled, but significant improvement on the June quarter performance is expected.

Zinc recovery in the quarter was 66%, but improved from 58% in April to 80% in June. Lower recoveries in the quarter were in part related to trial work associated with suppression of silica in the concentrate which can have a negative impact upon zinc recoveries.

OPERATING COSTS

Operating costs are currently significantly higher than originally planned with the key areas of cost overrun in the Processing area being repairs & maintenance, reagents and labour. The June quarter unit cost was $191/t of ore processed, which comprised of $72/t mining, $83/t processing, $17/t site administration and $19/t transport. The $83/t processing cost includes $20/t labour, $16/t reagents, $28/t Repairs & Maintenance and other of $19/t.

Amongst other benefits, the planned rectification work (Hera Expansion Study) is planned to materially reduce processing reagent and repairs & maintenance costs on a unit cost basis.

EXPLORATION

HERA NORTH

During the quarter results were received from further exploration drilling at Hera North. These results have been included in the recently announced Revised Hera Resource (ASX: 7 July 2015). Hole HRD061W1 was drilled approximately 50 m above the high grade results received in hole HRD061 and intercepted gold and base metal mineralization in two zones assaying 4-8% combined lead/zinc and up to 6.9 g/t gold.

Hole HRRCD062 was drilled to test the conceptual 'beyond' target, some 120 m north of the Hera North Pod, but failed to intersect the target zone. The hole will be used to undertake a downhole-EM (DHEM) survey to test for nearby massive sulphide mineralisation.

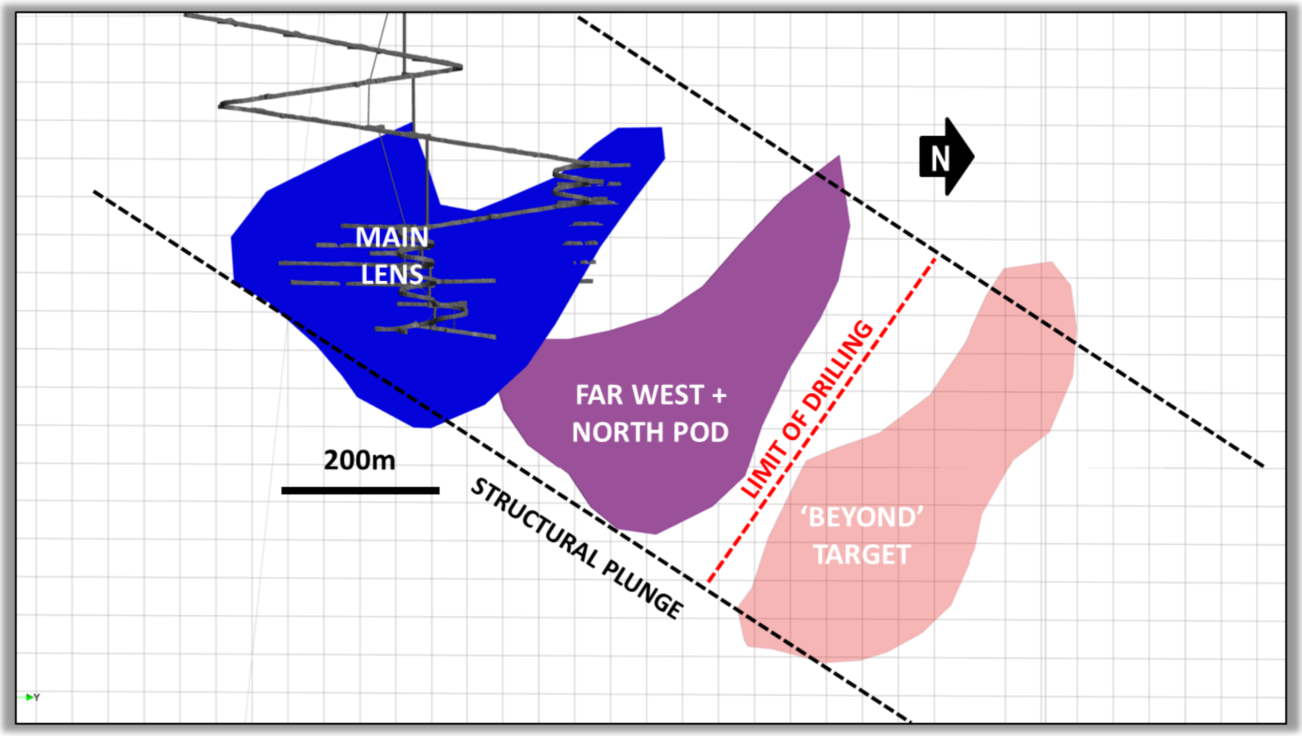

Figure 1 Schematic Hera Long Section showing the 'beyond' target relative to existing drill coverage

HEBE MAGNETIC ANOMALY

Drilling of single hole to test the Hebe magnetic anomaly, 1.5 km south-east of the Hera deposit, returned an encouraging 5 m at 1.7% Pb and 1.3% Zn from 489 m. The Hebe anomaly is postulated as a potential source of mineralising fluids for the Hera deposit.

The style and intensity of alteration observed in the hole is generally indicative of proximity to economic grades of mineralisation. The drill hole has been cased to run a downhole-EM (DHEM) survey to test for nearby massive sulphide mineralisation.

HERA EXPANSION STUDY

The detailed Hera Expansion Study was released to ASX on 7 July 2015 "Hera Project Performance, Expansion Study and Financial Update". To deliver improved operating performance the Company has developed the Hera Expansion Study to rectify sections of the process plant, to deliver improved performance of the processing circuit and lower operating costs, but also deliver enhanced throughput capacity of up to 450,000 t/y. The Expansion study shows the Hera Project capable of delivering:

- A five year mine life assuming no additional exploration success
- Mining inventory of 2.18 Mt at 3.1 g/t Au, 3.2% lead and 4.2% zinc
- Average annual production of 40,000 oz gold, 14000 t/y zinc, 12,500 t/y lead
- LOM operating costs of around $160/t (mining, processing, admin, transport & royalty)
- An All-in Sustaining Cost (AISC) over the life of mine of less than A$700/oz, after base metal credits
- Processing capital expenditure of $16.8 million in FY16 (revised crushing and grinding circuit including ball mill installation) is based on acquiring second hand equipment.

A summary of process physicals in the study is provided below:

Mine Production Summary		FY16	FY17	FY18	FY19	FY20	FY21	FY22	LOM
Ore processed	t/h	48	58	60	60	60	20	-	58
Plant Utilisation	%	81.8%	86.0%	86.0%	86.0%	86.0%	86.0%	0.0%	85.3%
Ore Processed	t	**347,588**	**438,581**	**452,016**	**452,016**	**453,254**	**12,488**	-	**2,155,943**
Ore Processed Grade - Gold	g/t	**3.7**	**4.1**	**3.0**	**2.7**	**2.6**	**2.6**	-	**3.2**
Ore Processed Grade - Silver	g/t	**13**	**16**	**34**	**55**	**42**	**40**	-	**33**
Ore Processed Grade - Lead	%	**2.4%**	**2.9%**	**3.4%**	**3.9%**	**3.8%**	**3.9%**	**0.0%**	**3.3%**
Ore Processed Grade - Zinc	%	**2.4%**	**3.6%**	**4.3%**	**5.3%**	**5.6%**	**4.3%**	**0.0%**	**4.3%**
% Recovery - Total Gold	%	**83%**	**90%**	**90%**	**90%**	**90%**	**90%**	**0%**	**89%**
% Recovery - Lead	%	**91%**	**91%**	**91%**	**91%**	**91%**	**91%**	**0%**	**91%**
% Recovery - Zinc	%	**85%**	**88%**	**88%**	**88%**	**88%**	**88%**	**0%**	**88%**
Total Payable Metal Produced		-	-	-	-	-	-	-	-
Gold	oz	**33,885**	**51,909**	**39,718**	**35,248**	**34,585**	**925**	-	**196,271**
Silver	oz	**39,599**	**62,263**	**250,794**	**475,128**	**315,423**	**8,699**	-	**1,151,906**
Lead	t	**6,723**	**10,338**	**12,437**	**14,061**	**13,415**	**396**	-	**57,368**
Zinc	t	**4,984**	**10,295**	**12,395**	**15,798**	**16,751**	**338**	-	**60,560**
		-	-	-	-	-	-	-	-
Concentrate sold	DMT	26,825	42,920	59,015	64,380	69,745	6,612	-	269,497

The delivery of the Hera Expansion Project is contingent on securing external funding and an amendment to the existing project approval for increased annual mining rates and total ore mined, an increase in groundwater extraction licences, and an extension to the existing Hera Mining Lease. The study includes allowances for timing and cost for additional licence and permit requirements for the study.

The study has not yet included any value associated with the planned Stage 2 integration of the Nymagee copper deposit, nor has it included any further exploration success and attendant mine life additions. The Company has confidence that each of these will be delivered in time providing additional uplift to the value of the Hera Expansion Study.

CORPORATE

FINANCIAL POSITION

As at 30 June 2015, the Company held cash in bank of $4.85 million ($3 million which is unavailable and held as cash deposits for environmental bonds). This is a $7.5 million reduction from the March quarter closing balance due in part to delayed gold sales, a reduction in creditors and an increase in inventory and receivables at 30 June 2015. At 30 June 2015, Aurelia had concentrate receivables of $3.7 million associated with concentrate shipment#4, exported on 29 June 2015, with a provisional payment of $2.6 million received in early July.

Total operating cash inflow for the June quarter was $9.5 million. Gold receipts totalled $6.0 million and provisional receipts from concentrate shipment#3 totalled $3.5 million. In addition, funds from the closure out of all commodity hedge positions realised $1.2 million in the quarter. Total cash outflows consisted of $18.2 million in the payment of trade and corporate creditors.

Trade creditors and other payables as at 30 June 2015 is estimated at $16.1 million. Of the balance of outstanding creditors, $6.1 million is payable to Hera's mining contractor.

Total drawn debt from the Glencore Finance Facility is $105 million (excluding capitalised interest of approximately $12 million).

All outstanding gold forwards, gold puts and base metal quotational period hedging were closed out during the quarter raising a total of $1.4 million (with $1.2 million receipted in the quarter).

FINANCIAL PERFORMANCE

The Hera Project delivered a $5.7 million earnings loss before interest, tax and depreciation (EBITDA[1]) in the June quarter. Gold and silver sales were $6.97 million from the sale of 4,384 oz and concentrate revenue was $7.24 million (net of treatment charges) from the sale of 10,144 t of bulk lead zinc concentrate.

Aurelia Metals Limited Quarterly Financial Summary 2015		
	Units	**June Qtr**
Revenue		
Gold/Silver Revenue	$k	6,968
Net Base Metal Revenue	$k	7,243
Other	$k	6
Total Revenue	**$k**	**14,217**
Operating Costs		
Mining	$k	5,481
Processing	$k	6,261
Site Administration	$k	1,320
Concentrate Transport	$k	1,368
Net Inventory adjustments	$k	5,441
Royalties	$k	74
Total Operating	**$k**	**19,944**
Site EBITDA[1]	**$k**	**(5,727)**

(1) EBITDA is a non-IFRS financial term and is not subject to audit review.

The slower ramp up in operating performance, combined with lower than expected gold recovery have reduced expected revenues. Together with reduced revenues, processing costs have been high, primarily due to increased reagent consumption and crusher maintenance costs.

ASSET IMPAIRMENT

As of the date of this report, a full year review of the Company's asset carrying values has yet to be completed. Despite the incomplete nature of the impairment review, it is highly probable that upon completion of the review, an impairment loss will be recognised in the financial statements ending 30 June 2015. Directors believe that a prudent view of the carrying value of the Hera asset indicates an asset impairment in the range of $60-90 million is probable for the year ending 30 June 2015.

FUNDING STRATEGY

Owing to underperformance of the Hera Project to date cash flow generation has been weaker than anticipated and currently the Company is not yet generating consistent positive cash flow.

The changes to the Hera Project as identified in the expansion study is planned to address this situation, however, the capital requirement for delivery of the expansion study is in excess of currently available internal funds. Consequently, Aurelia requires additional capital, in the form of equity funding together with a restructure of its financing facilities, to address both short term and longer term liquidity.

The Company has drawn facilities and capitalised interest of A$117 million as at 30 June 2015. The drawn facilities are in tranches, as per the following table:

Facilities (by seniority)	Drawn Amount	Capitalised	Total Outstanding
Glencore A – Converting Note Facility	A$20m out of A$20m	A$3.1m	A$23.1m
Glencore B – Converting Note Facility	A$50m out of A$50m	A$5.8m	A$55.8m
Glencore C – Debt Facility	A$30m out of A$30m	A$2.6m	A$32.6m
Glencore D – Debt Facility	Nil out of A$50m	Nil	Nil
Glencore E – Debt Facility	A$5m out of A$5m	A$0.8m	A$5.8m
Total	**A$105m out of A$155m**	**A$12.2m**	**A$117.2m**

To this point the facilities have been capitalising interest as per their contracted schedule. The first payments due under the facilities occur in September 2015. The current repayment schedule under all facilities is shown in the table below (with interest capitalised up until the initial repayment date the total outstanding debt increases to $118.7 million).

Facility A and B, representing total outstanding liabilities of $78.8 million, are in the form of Converting Notes and have original terms of 60 months. A key feature of these securities is the ability convert these Notes into ordinary equity of the Company based on certain pricing formulae. The decision to convert the Notes in accordance with the Converting Note Deed Poll is at the election of Aurelia, subject to satisfaction of certain conditions, namely:

- FIRB approval
- No Event of Default is continuing
- The Security Trustee (a Glencore entity) has not commenced enforcement proceedings

Facility C and E represent total outstanding debt of $38.4 million and have original terms of 60 months and 42 months respectively.

If the Company were to exercise conversion rights in respect of both Facility A and Facility B, the Company could reduce debt including accrued interest) from $117.2 million to $38.4 million (or $38.9 million assuming further capitalisation of interest up to the initial repayment date in September 2015). This would reduce the company's debt payment profile as shown in the table below.

	Principal repayments A$ No conversion	Principal repayments A$ Conversion of Facility A&B
FY16 in detail		
Sep-15	4,215,465	1,555,429
Oct-15	4,215,465	1,555,429
Jan-16	4,605,685	1,741,031
Apr-16	5,142,865	2,029,110
Financial Year Summary		
FY16	18,179,480	6,880,999
FY17	27,453,385	10,654,808
FY18	73,114,635	21,410,608
TOTAL	118,747,500	38,946,415

As previously announced, the Company has received an Event of Default notice from its major lender, Glencore. The Company has rejected the default notice. As described above, the absence of an Event of Default is a condition to the Company's ability to convert the Notes.

EQUITY RAISING

The Company has been in discussions with a number of parties regarding raising equity. The Company is considering options for raising capital in the public equity markets or through private markets, in conjunction with the broader balance sheet restructure. The Company continues to evaluate these options and is in discussion with its major shareholders.

The negotiation of potential equity raising options are ongoing and prospective. No binding agreements have been reached and the Company can give no assurances that any agreement will be reached with any of the parties.