

QUARTERLY REPORT TO 30 SEPTEMBER 2015

HIGHLIGHTS

- **Agreement authorised by the Ngadju native title holders to enable development of the Medcalf Project.**
- **Pre-feasibility study work continues in relation to the Medcalf Project.**
- **Approval and clearances received to commence drill programme.**

Audalia Resources Limited (ASX: **ACP**) is pleased to present its report for the September 2015 quarter.

MEDCALF PROJECT

The Medcalf Project is a vanadium-titanium project located some 470 kilometres south east of Perth near Lake Johnson, Western Australia. The Medcalf Project comprises five granted Exploration Licences E63/1068, E63/1133, E63/1134, E63/1405 and E63/1406 and Prospecting Licences P63/1528-33 inclusive and P63/1560 and P63/1561 covering a total area of 24 km².

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

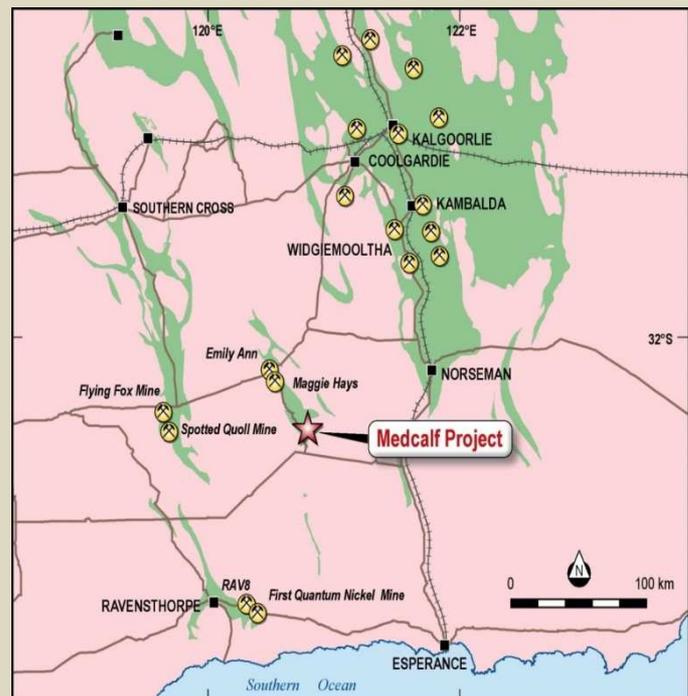


Figure 1: Medcalf Project - Location Map

Heritage and native title

In September 2015, anthropological and archaeological surveys were conducted over the mining lease application M63/656. Reports from these surveys were received subsequent to the end of the quarter and confirmed heritage clearance over the surveyed areas.

Subsequent to the September 2015 quarter, the Ngadju People authorised the terms of an agreement in relation to the grant of project tenure, development of the Medcalf Project and conduct of the operations. The definitive agreement is being finalised to reflect these terms and is expected to be signed in early November 2015. The Ngadju People will share in the benefits of the Medcalf Project from the date of signing the definitive agreement.

MEDCALF PROJECT (continued)

Heritage and native title (continued)

The agreement is a condition precedent to the grant of mining lease application M63/656 by the Department of Mines and Petroleum.

Pre-feasibility study (PFS)

The Company continued to advance its PFS on its flagship Medcalf Project during the September 2015 quarter with work continuing on haul road access and logistics, water and power. The preliminary commercial evaluation work continues to develop and refine capital and operating cost estimates and product revenue estimates to a PFS level.

Metallurgical testwork programme

The Company commenced its PFS level metallurgical testwork programme to develop and refine the preliminary flow sheet that will drive process development and design. During the September 2015 quarter, the beneficiation circuit flowsheet was finalised to a PFS level and the report in relation to this work was received in October 2015.

The hydrometallurgical circuit work commenced in the December 2015 quarter with tests focussing on identifying the optimal process conditions to be used in that circuit. This testwork is on schedule for completion in the December 2015 quarter.

Drill core programme

In July 2015, the Department of Mines and Petroleum approved the Company's programme of works application for the drill core programme. The programme will extract samples required to define the metallurgical characteristics of the Medcalf Project ore body and confirm the optimal process flow sheets.

Following receipt of the heritage survey reports in October 2015, the Company scheduled the drill programme to commence in November 2015. The programme will be completed in the December 2015 quarter with results forming part of the metallurgical testwork programme.

Environmental works

In September 2015, the Company carried out further environmental works with targeted searches of flora of conservation significance.

Audalia's Conservation Management Plan will be updated to reflect the data from these surveys in due course.

GASCOYNE PROJECT

The Gascoyne Project comprises 100% owned tenements covering 556 km² that are highly prospective for Lead (Pb), Zinc (Zn) and Copper (Cu) deposits, located in the Gascoyne Region, Western Australia. It is located approximately 250 km to the east of Carnarvon and 1200km north from Perth.

GASCOYNE PROJECT (continued)

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

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

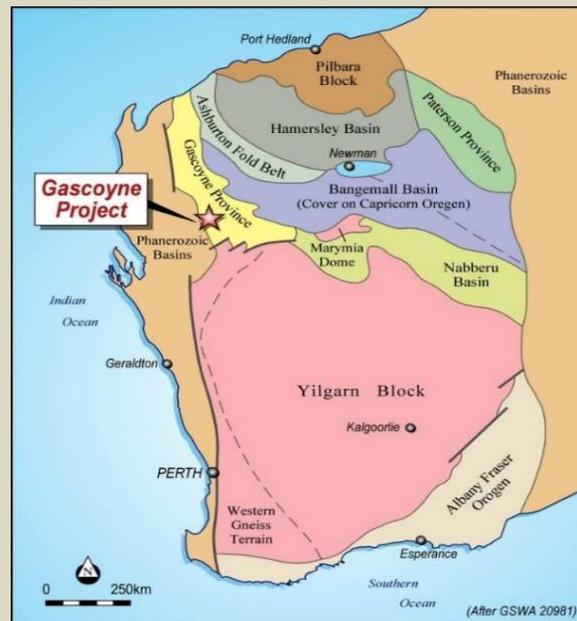


Figure 2: Gascoyne Project - Location Map

During the quarter, the Department of Mines and Petroleum granted Audalia’s application for E09/2102 on 15 July 2015 following the signing of a heritage agreement with the Gnulli People on 14 July 2015.

The Company will focus future works on this recently granted tenement to evaluate its potential and bring the level of geological understanding in line with the rest of the tenement package before planning a future drill programme at the Gascoyne Project.

CORPORATE MATTERS

In September 2015, the Company announced the appointment of Mr Raymond Browning as a non-executive director of the Company. Mr Browning is a qualified mechanical engineer with extensive operational and project experience and joins the Board during an important phase of the Company’s development. Audalia also accepted the resignation of Mr Boo Lye Kwa as non-executive director of the Company.

In September 2015, the Company announced the successful negotiation for an extension of the repayment date on the A\$4 million loan facility. The repayment date of the loan facility has been extended from 20 March 2016 to 20 March 2017.

Audalia continues to pursue opportunities to complete further capital raisings to advance the development work at the Medcalf Project as well as progress the ongoing exploration activities at the Gascoyne Project. The Company also continues to actively review and assess other projects in the resource sector, both in Australia and overseas, by way of acquisition or investment/ joint venture.

Authorised by:

Dato Soo Kok Lim
Executive Chairman

Schedule of Tenements as at 30 September 2015

| Projects | Licence Number | Registered Holder / Applicant | Status | Audalia's Interest |
|---------------------------------|----------------|-------------------------------|---------------------------|--------------------|
| <u>Western Australia</u> | | | | |
| Gascoyne | E09/1568 | Audalia Resources Limited | Granted | 100% |
| | E09/1569 | Audalia Resources Limited | Granted | 100% |
| | E09/1570 | Audalia Resources Limited | Granted | 100% |
| | E09/1824 | Audalia Resources Limited | Granted | 100% |
| | E09/1825 | Audalia Resources Limited | Granted | 100% |
| | E09/2102 | Audalia Resources Limited | Granted ¹ | 100% |
| | Medcalf | E63/1068 | Audalia Resources Limited | Granted |
| E63/1405 | | Audalia Resources Limited | Granted | 100% |
| E63/1406 | | Audalia Resources Limited | Granted | 100% |
| P63/1528 | | Audalia Resources Limited | Granted | 100% |
| P63/1529 | | Audalia Resources Limited | Granted | 100% |
| P63/1530 | | Audalia Resources Limited | Granted | 100% |
| P63/1531 | | Audalia Resources Limited | Granted | 100% |
| P63/1532 | | Audalia Resources Limited | Granted | 100% |
| P63/1533 | | Audalia Resources Limited | Granted | 100% |
| P63/1560 | | Audalia Resources Limited | Granted | 100% |
| P63/1561 | | Audalia Resources Limited | Granted | 100% |
| E63/1133 | | Audalia Resources Limited | Granted | 100% |
| E63/1134 | | Audalia Resources Limited | Granted | 100% |
| M63/656 | | Audalia Resources Limited | Pending | 100% |

1. Exploration licence application E09/2102 was granted on 15 July 2015.

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/2013

Name of entity

AUDALIA RESOURCES LIMITED

ABN

49 146 035 690

Quarter ended ("current quarter")

30 September 2015

Consolidated statement of cash flows

| Cash flows related to operating activities | Current quarter \$A'000 | Year to date (3 months) \$A'000 |
|---|----------------------------|---------------------------------------|
| 1.1 Receipts from product sales and related debtors | - | - |
| 1.2 Payments for | | |
| (a) exploration and evaluation | (489) | (489) |
| (b) development | - | - |
| (c) production | - | - |
| (d) administration | (139) | (139) |
| 1.3 Dividends received | - | - |
| 1.4 Interest and other items of a similar nature received | 9 | 9 |
| 1.5 Interest and other costs of finance paid | - | - |
| 1.6 Income taxes paid | - | - |
| 1.7 Other – Research and development tax incentive | 395 | 395 |
| Net Operating Cash Flows | (224) | (224) |
| Cash flows related to investing activities | | |
| 1.8 Payment for purchases of: | | |
| (a) prospects | - | - |
| (b) equity investments | - | - |
| (c) other fixed assets | - | - |
| 1.9 Proceeds from sale of: | | |
| (a) prospects | - | - |
| (b) equity investments | - | - |
| (c) other fixed assets | - | - |
| 1.10 Loans to other entities | - | - |
| 1.11 Loans repaid by other entities | - | - |
| 1.12 Other – payment for held-to-maturity investments | - | - |
| Net investing cash flows | - | - |
| 1.13 Total operating and investing cash flows (carried forward) | (224) | (224) |

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity and oil and gas exploration entity quarterly report

| | | | |
|---|---|--------------|--------------|
| 1.13 | Total operating and investing cash flows (brought forward) | (224) | (224) |
| Cash flows related to financing activities | | | |
| 1.14 | Proceeds from issues of shares, options, etc. (net of issuance costs) | - | - |
| 1.15 | Proceeds from sale of forfeited shares | - | - |
| 1.16 | Proceeds from borrowings | - | - |
| 1.17 | Repayment of borrowings | - | - |
| 1.18 | Dividends paid | - | - |
| 1.19 | Other | - | - |
| Net financing cash flows | | - | - |
| Net increase (decrease) in cash held | | (224) | (224) |
| 1.20 | Cash at beginning of quarter/year to date | 2,661 | 2,661 |
| 1.21 | Exchange rate adjustments to item 1.20 | - | - |
| 1.22 | Cash at end of quarter | 2,437 | 2,437 |

Payments to directors of the entity, associates of the directors, related entities of the entity and associates of the related entities

| | | Current quarter \$A'000 |
|--|--|----------------------------|
| 1.23 | Aggregate amount of payments to the parties included in item 1.2 | (116) |
| 1.24 | Aggregate amount of loans to the parties included in item 1.10 | - |
| 1.25 | Explanation necessary for an understanding of the transactions | |
| Non-executive and executive directors' remuneration | | (10) |
| Services provided by director-related entities | | (106) |

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

| |
|-----|
| Nil |
|-----|

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

| |
|-----|
| Nil |
|-----|

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

| | Amount available \$A'000 | Amount used \$A'000 |
|---------------------------------|-----------------------------|------------------------|
| 3.1 Loan facilities | 4,000 | 3,000 |
| 3.2 Credit standby arrangements | - | - |

Estimated cash outflows for next quarter

| | \$A'000 |
|--------------------------------|----------------|
| 4.1 Exploration and evaluation | (1,400) |
| 4.2 Development | - |
| 4.3 Production | - |
| 4.4 Administration | (115) |
| Total | (1,515) |

Reconciliation of cash

| Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows. | Current quarter \$A'000 | Previous quarter \$A'000 |
|---|----------------------------|-----------------------------|
| 5.1 Cash on hand and at bank | 422 | 1,646 |
| 5.2 Deposits at call | 2,015 | 1,015 |
| 5.3 Bank overdraft | - | - |
| 5.4 Other | - | - |
| Total: cash at end of quarter (item 1.22) | 2,437 | 2,661 |

Changes in interests in mining tenements and petroleum tenements

| | Tenement reference and location | Nature of interest (note (2)) | Interest at beginning of quarter | Interest at end of quarter |
|---|---------------------------------------|----------------------------------|--|----------------------------------|
| 6.1 Interests in mining tenements and petroleum tenements relinquished, reduced or lapsed | - | - | - | - |
| 6.2 Interests in mining tenements and petroleum tenements acquired or increased | E09/2102 | 100% | Nil | 100% |

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity and oil and gas exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

| | Total number | Number quoted | Issue price per security (see note 3) (cents) | Amount paid up per security (see note 3) (cents) |
|--|--------------|---------------|---|--|
| 7.1 Preference securities <i>(description)</i> | - | - | - | - |
| 7.2 Changes during quarter: | - | - | - | - |
| (a) Increases through issues | | | | |
| (b) Decreases through returns of capital, buy-backs, redemptions | | | | |
| 7.3 +Ordinary securities | 234,160,001 | 234,160,001 | | |
| 7.4 Changes during quarter: | | | | |
| (a) Increases through issues | - | - | - | - |
| (b) Decreases through returns of capital, buy-backs | | | | |
| 7.5 +Convertible debt securities <i>(description)</i> | - | - | - | - |
| 7.6 Changes during quarter: | - | - | - | - |
| (a) Increases through issues | | | | |
| (b) Decreases through securities matured, converted | | | | |
| 7.7 Options <i>(description and conversion factor)</i> | - | - | <i>Exercise price</i> - | <i>Expiry date</i> - |
| 7.8 Issued during quarter | - | - | - | - |
| 7.9 Exercised during quarter | - | - | - | - |
| 7.10 Expired during quarter | - | - | - | - |
| 7.11 Debentures <i>(totals only)</i> | - | - | - | - |
| 7.12 Unsecured notes <i>(totals only)</i> | - | - | - | - |

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:

Date: **30 October 2015**

(Executive Chairman)

Print name: **Dato Soo Kok Lim**

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements and petroleum tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement or petroleum tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities:** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report, with the exception of the classification of capitalised exploration expenditure and the allocation of the Research and development tax incentive as an investing activity.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

+ See chapter 19 for defined terms.