

QUARTERLY REPORT TO 31 MARCH 2016

HIGHLIGHTS

- **Medcalf Project Pre-Feasibility Study completed.**
- **Interim work commences at the Medcalf Project prior to the DFS.**
- **Drill programme designed to report Ore Reserve estimate at Medcalf.**
- **Approvals sought to conduct drill programme at the Medcalf Project.**

Audalia Resources Limited (ASX: **ACP**) is pleased to present its report for the March 2016 quarter.

MEDCALF PROJECT

The Medcalf Project is a vanadium-titanium project located some 470 kilometres south east of Perth near Lake Johnston, Western Australia. The Medcalf Project comprises two granted Exploration Licences E63/1133 and E63/1134, and three Prospecting Licences P63/1528, P63/1560 and P63/1561 as well as the recently granted mining lease M63/656. Together these licences covering a total area of 24 km².

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

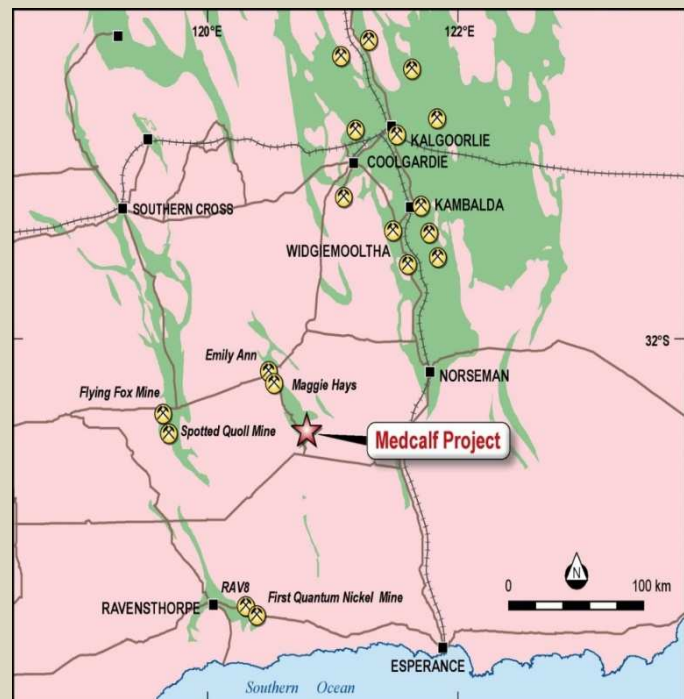


Figure 1: Medcalf Project - Location Map

Pre-feasibility study (PFS)

During the March 2016 quarter, the Company completed the PFS on its flagship Medcalf Project which validated the potential for a viable titanium-vanadium mining and processing operation, with iron by-products. The PFS supports the multi-deposit project over a 12-year life of mine with a low risk and low cost mining operation. The results from the PFS were released to ASX on 9 March 2016. The Company along with its consultants, Simulus Pty Ltd, Cube Consulting and Golder Associates Pty Ltd have also identified opportunities to further reduce operating and capital costs and reduce the environmental impact of the operations which will be evaluated as part of the Definitive Feasibility Study (DFS).

MEDCALF PROJECT (continued)

Pre-feasibility study (PFS) (continued)

A number of priority actions were recommended as a forward work plan including interim metallurgical testwork, environmental and permitting and infill drilling and exploration which are being pursued leading into the DFS.

Interim metallurgical testwork programme

In March 2016, the Company commenced the next phase of metallurgical testwork to further optimise the flow sheet and increase the confidence of the key assumptions used in the PFS prior to commencing the DFS. The programme is expected to take approximately 3 months to complete and is being undertaken by an independent overseas consultant.

Drill programme

During the quarter, the Company completed design work on a drill programme to upgrade the existing Mineral Resource to an Ore Reserve estimate in respect of the Medcalf Project. Audalia subsequently engaged with the Department of Parks and Wildlife and the Department of Mines and Petroleum in relation to the proposed drilling at the Medcalf Project following which Programme of Work and permit applications were made.

During the quarter, the Company also submitted its annual technical reports to the Department of Mines and Petroleum.

Environmental works

During the quarter, the Company completed rehabilitation of the 17-hole PQ drill core programme which was undertaken during the December 2015 quarter. The Exploration Rehabilitation Report was submitted to the Department of Mines and Petroleum in March 2016.

Audalia's Conservation Management Plan was updated during the quarter to reflect the proposed drill programme together with data from recent flora surveys conducted at the Medcalf Project. The Conservation Management Plan was subsequently submitted to the Department of Parks and Wildlife for review and confirmation of compliance with their departmental standards.

GASCOYNE PROJECT

The Gascoyne Project comprises 100% owned tenements covering 537 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.

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.

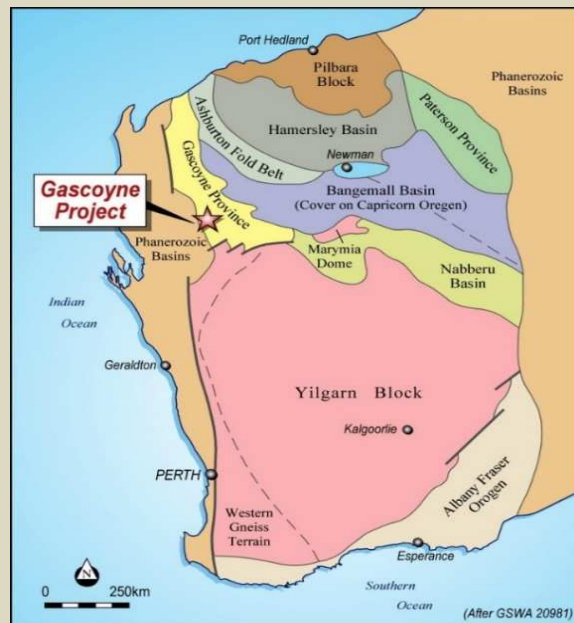


Figure 2: Gascoyne Project - Location Map

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

During the quarter, the Company continued desktop evaluation work in respect of E09/2102 and design of a work programme for the remaining tenements forming part of the Gascoyne Project. Audalia awaits the decision of the Department of Mines and Petroleum on the Company’s exemption applications from the expenditure conditions in the 2014/15 period.

The Company submitted its annual technical reports to the Department of Mines and Petroleum in January 2016.

CORPORATE MATTERS

In March 2016, the Company issued 2,000,000 shares to the Company’s CEO, Mr Brent Butler, following the completion of the Medcalf Project PFS.

During the quarter the Company also received an Australian Government R&D tax rebate of approximately \$600,000 for the year ended 30 June 2015 which will supplement Audalia’s existing cash reserves and be used to advance the interim work being undertaken prior to commencing the DFS.

The Company continues to pursue opportunities to complete further fundraisings to advance the next stage of development work at the Medcalf 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:

Brent Butler
CEO and Executive Director

Schedule of Tenements as at 31 March 2016

| Projects | Licence Number | Registered Holder / Applicant | Status | Audalia's Interest |
|--------------------------|----------------|-------------------------------|---------|--------------------|
| Western Australia | | | | |
| 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 | 100% |
| Medcalf | P63/1528 | 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 | Granted | 100% |

Competent Persons' Statements

The information in this announcement relates to the Exploration Results for the Medcalf Project Resource Estimate, Resource Database, Geology and Bulk densities are based on information compiled by Mr Brent Butler, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Butler has 32 years' experience as a geologist and is CEO and Executive Director of Audalia. Mr Butler has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 edition of the 'Australasian Code for Reporting of Exploration results, Mineral Resources and Ore Reserves' (JORC Code). Mr Butler has provided his consent to the inclusion in the PFS report of the matters based on his information in the form and context in which it appears.

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")

| |
|----------------------|
| 31 March 2016 |
|----------------------|

Consolidated statement of cash flows

| Cash flows related to operating activities | Current quarter \$A'000 | Year to date (9 months) \$A'000 |
|---|----------------------------|---------------------------------------|
| 1.1 Receipts from product sales and related debtors | - | - |
| 1.2 Payments for (a) exploration and evaluation | (926) | (2,892) |
| (b) development | - | - |
| (c) production | - | - |
| (d) administration (note 6) | 116 | (326) |
| 1.3 Dividends received | - | - |
| 1.4 Interest and other items of a similar nature received | 11 | 34 |
| 1.5 Interest and other costs of finance paid | - | - |
| 1.6 Income taxes paid | - | - |
| 1.7 Other – Research and development tax incentive | 600 | 995 |
| Net Operating Cash Flows | (199) | (2,189) |
| Cash flows related to investing activities | | |
| 1.8 Payment for purchases of: (a) prospects | - | - |
| (b) equity investments | - | - |
| (c) other fixed assets | - | (5) |
| 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 | - | (5) |
| 1.13 Total operating and investing cash flows (carried forward) | (199) | (2,194) |

+ 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) | (199) | (2,194) |
| 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 | - | 625 |
| 1.17 | Repayment of borrowings | - | - |
| 1.18 | Dividends paid | - | - |
| 1.19 | Other | - | - |
| | Net financing cash flows | - | 625 |
| | Net increase (decrease) in cash held | (199) | (1,569) |
| 1.20 | Cash at beginning of quarter/year to date | 1,290 | 2,660 |
| 1.21 | Exchange rate adjustments to item 1.20 | - | - |
| 1.22 | Cash at end of quarter | 1,091 | 1,091 |

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

| | | Curent quarter \$A'000 |
|------|--|---------------------------|
| 1.23 | Aggregate amount of payments to the parties included in item 1.2 | (108) |
| 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 | (14) |
| | Services provided by director-related entities | (94) |

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

The Company issued 2,000,000 shares to the CEO pursuant to his consultant agreement following the achievement of the performance hurdle.

- 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 | 3,625 |
| 3.2 Credit standby arrangements | - | - |

Estimated cash outflows for next quarter

| | \$A'000 |
|--------------------------------|------------|
| 4.1 Exploration and evaluation | 246 |
| 4.2 Development | - |
| 4.3 Production | - |
| 4.4 Administration | 100 |
| Total | 346 |

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 | 1,076 | 275 |
| 5.2 Deposits at call | 15 | 1,015 |
| 5.3 Bank overdraft | - | - |
| 5.4 Other | - | - |
| Total: cash at end of quarter (item 1.22) | 1,091 | 1,290 |

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 | - | - | - | - |

+ 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 | 240,660,001 | 240,660,001 | | |
| 7.4 Changes during quarter: (a) Increases through issues (b) Decreases through returns of capital, buy-backs | 2,000,000 | 2,000,000 | Nil | Nil |
| 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: **29 April 2016**

(CEO and Executive Director)

Print name: **Brent Butler**

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* including interpretation 1031 Accounting for the Goods and Services Tax 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.
- 6 The administration figure for the March quarter is a positive cash inflow amount as the Company has received the Goods and Services Tax refund from the Australian Taxation Office for the November to February periods during this quarter.