

QUARTERLY REPORT TO 31 DECEMBER 2011

HIGHLIGHTS

- **Three tenements transferred from vendor at the Gascoyne Project;**
 - **Acquisition of the Medcalf Project;**
 - **Appointment of new tenement manager; and**
 - **Relocation of principal administrative office.**
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Audalia Resources Limited (ASX: **ACP**) is pleased to present its report for the December 2011 quarter.

GASCOYNE PROJECT

The Gascoyne Project is located approximately 100kms north of Gascoyne Junction east of the Lyons River and tributaries. The tenements consist of five granted Exploration Licences, E09/1568-70 which were transferred to Audalia during the quarter and the recently granted Exploration Licences E09/1824-25. The Gascoyne Project covers an area of 32,400 Ha (324 km²).

The regional setting of the Project is near the western edge of the Neo-Proterozoic Morrissey Metamorphic Suite rocks with overlying Permo-Carboniferous sediments of the Carnarvon Basin. The metamorphic belt acts as a buffer zone between the Archaean Yilgarn shield and the overlying cratonic Proterozoic Basins and is orientated WNW-ESE with well-developed schists, shears and intrusives parallel to this dominant strike. Therefore the area is a complex juxtaposition of sediments, granitoids and mafics with accompanying structures such as shears and faults.

The region was explored for gold, base metals and diamonds by large companies such as BHP, MIM, Western Mining and Rio Tinto using regional stream sediment, soil and rock chip sampling. These explorers considered the Gascoyne Province to be prospective for Broken Hill Type (BHT) Ag-Pb-Zn mineralisation based on a study of Zn-bearing spinels (gahnites) in the late 1990s.

An exploration programme was carried out during July 2011. This programme reviewed targets in the field outlined from the previous aeromagnetic and geological interpretations, including, thumbprint magnetic anomalies and gossanous outcrops.

A thirty-one rock chip sampling program was also undertaken. Assay results returned anomalous peak values of 240 ppm Cu, 202 ppm Zn, 138 ppm Pb, pathfinder elements of 24.3ppm Mo and 2,880ppm Ba.

The rock chip sampling programme and reconnaissance mapping have returned encouraging anomalous base metal and pathfinder values that are worthy of follow up exploration work. Some of the anomalous base metal results are associated with gossanous outcrops identified by previously completed geology/regolith interpretation of aerial photography in conjunction with magnetometry.

The Project area remains prospective to host a stratabound lead-zinc (copper) mineralisation of the Broken Hill type. A program of systematic auger geochemical sampling is proposed on a nominal 400m x 50m pattern. The anomalous results from the rock chip sampling correlate with interpreted chloritic bands in the rock strata which may reflect hydrothermal alteration of the country rock. In addition, these bands correlate with anomalous gossanous outcrop identified in the field.

MEDCALF PROJECT

During the quarter, Audalia acquired a vanadium-titanium project located some 470km south east of Perth near Lake Johnson, Western Australia for a cash price of \$150,000 plus GST. The Medcalf Project comprises three granted Exploration Licences E63/1068, E63/1405 and E63/1406 and covers an area of 1,740 Ha (17.4 km²).

The Medcalf Project is located towards 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. Previous work carried out by numerous holders of the tenements over the last 40 years includes exploration for nickel, titanium/vanadium, platinum group metals (PGM) and gold.

The primary vaniferous titanomagnetite mineralisation occurs within the pyroxenite zone between the basal peridotite and upper gabbro zones of the sill. The lateritic weathering of this sill has removed much of the silica, calcium and magnesium in solution thus resulting in residual concentrations of iron, titanium and vanadium oxides. This secondary enrichment potential hosts economic ore.

Proposed Exploration

Field work commenced this month, mapping the area and collating all historic data for a drill programme and to explore for vanadium.

TENEMENT MANAGER

During the quarter, Audalia appointed a new tenement manager, Mr Robbie Cooper. Mr Cooper will be responsible for managing the Company's tenement holdings, in particular the Gascoyne Project and the recently acquired Medcalf Project. He will attend to the Company's statutory reporting obligations, liaise with the Department of Minerals and Petroleum and generally attend to all matters pertaining to the management of the Company's tenements.

NEW PRINCIPAL ADMINISTRATIVE OFFICE

During the quarter, Audalia relocated its offices to East Perth, Western Australia. Its registered office details remain unchanged.

Audalia 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:

Soo Kok Lim
Executive Chairman

Competent Person's Statement

The information in this report that relates to Exploration Results is based on information compiled by Mr Brent Butler, who is a member of the Australasian Institute of Mining and Metallurgy. Mr Butler is a consultant geologist with 27 years' experience as a geologist. 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 2004 edition of the 'Australasian Code for Reporting of Exploration results, Mineral Resources and Ore Reserves' (JORC Code). Mr Butler consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Appendix 5B

Mining 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

Name of entity

AUDALIA RESOURCES LIMITED

ABN

49 146 035 690

Quarter ended ("current quarter")

31 December 2011

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(7)	(41)
(b) development	-	-
(c) production	-	-
(d) administration	(188)	(226)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	19	23
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
Net Operating Cash Flows	(176)	(244)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	(159)	(159)
(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 (provide details if material)	-	-
Net investing cash flows	(159)	(159)
1.13 Total operating and investing cash flows (carried forward)	(335)	(403)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(335)	(403)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc. (net of issue costs)	-	(85)
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 (provide details if material)	-	-
	Net financing cash flows	-	(85)
	Net increase (decrease) in cash held	(335)	(488)
1.20	Cash at beginning of quarter/year to date	2,209	2,362
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	1,874	1,874

Payments to directors of the entity and associates of the directors
Payments to 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	(26)
1.24	Aggregate amount of loans to the parties included in item 1.10	-
1.25	Explanation necessary for an understanding of the transactions	
	Directors' remuneration	(20)
	Services provided by director-related entities	(6)

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

N/A

+ 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	-	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	(50)
4.2 Development	-
4.3 Production	-
4.4 Administration	(40)
Total	(90)

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	110	459
5.2 Deposits at call	1,764	1,750
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	1,874	2,209

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	-	-	-	-
6.2 Interests in mining tenements acquired or increased	E63/1068	Transfer	100%	100%
	E63/1405	Transfer	100%	100%
	E63/1406	Transfer	100%	100%

+ See chapter 19 for defined terms.

Appendix 5B
Mining 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	80,160,001	14,160,001		
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>	6,830,004	3,830,004	Exercise price 20 cents	Expiry date 28 April 2014
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: **31 January 2012**
(Executive Chairman)

Print name: **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 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, 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.
- 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.

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