

QUARTERLY REPORT TO 31 DECEMBER 2015

HIGHLIGHTS

- **Definitive agreement signed with the Ngadju People.**
- **Grant of mining lease for the Medcalf Project.**
- **Drilling programme completed at the Medcalf Project.**
- **PFS work continues in relation to the Medcalf Project.**

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

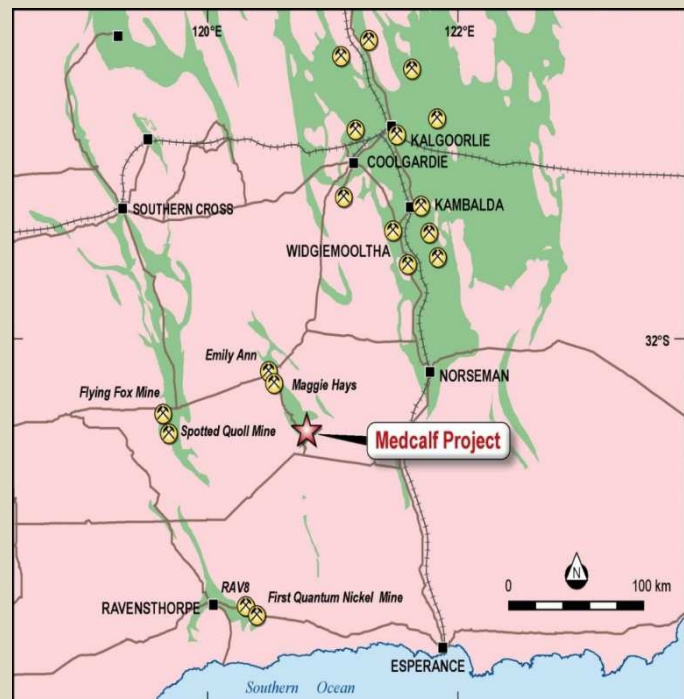


Figure 1: Medcalf Project - Location Map

Heritage and native title

The December 2015 quarter saw the Company achieve two significant milestones, one of which was the signing of the definitive agreement with the Ngadju People on 9 November 2015. This agreement gives the Company certainty as to its rights to tenure and ability to develop the Medcalf Project and conduct operations. The terms of the agreement ensure that the Ngadju People, the sole native title holders in the area encompassing the Medcalf Project, will share in the benefits of the Project from both an economic and social standpoint. The signing of the agreement was the final condition precedent to the grant of mining lease application by the Department of Mines and Petroleum (**DMP**).

MEDCALF PROJECT (continued)

Grant of mining lease M63/656

The second major milestone achieved in the December 2015 quarter was the granting of mining lease application M63/656 by the DMP on 13 November 2015. With the mining lease in hand, the Company may now commence seeking regulatory approvals and permits required for the development of the Medcalf Project.

Pre-feasibility study (PFS)

The December 2015 quarter saw the Company progress the PFS on its flagship Medcalf Project with work continuing on hydrology, geology, mining, environment, power as well as the marketing and financing elements of the Project. These key elements together with the continued analysis of the metallurgical testwork are assisting the Company to further refine the potential economic models for the Medcalf Project.

Metallurgical testwork programme

The Company has continued its PFS level metallurgical testwork programme during the quarter. The hydrometallurgical testwork continued to focus on the recoveries and grade as well as flowsheet optimisation. Further testwork was planned and designed in the latter part of the quarter to further analyse and optimise the development and design of the Project. The testworks and results are now scheduled for completion in the March 2016 quarter with the PFS expected to be completed shortly thereafter.

Drill core programme

During the quarter the Company received reports from the anthropological and archaeological surveys that were conducted in September 2015 over mining lease application M63/656 which confirmed heritage clearance over the surveyed areas. Subsequently, the Company commenced its drilling programme which was completed in November 2015.

The 17-hole drill programme produced 723.1m of PQ core for further test work to define the metallurgical characteristics of the Medcalf Project ore body and confirm the optimal process flow sheets. Results from the drill programme will form part of the ongoing metallurgical testwork programme.

Geology

During the quarter, Cube Consulting was engaged to complete a revised geological model on the Medcalf Project with all historical and current geological information gathered from mapping, surface sampling, drilling and magnetic data in order to gain a more comprehensive understanding of the geological controls and to plan further drill programmes to enhance the Mineral Resource.

The Company is currently designing a suitable drilling programme to upgrade the existing Mineral Resource to the Ore Reserves category in respect of the Medcalf Project.

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.

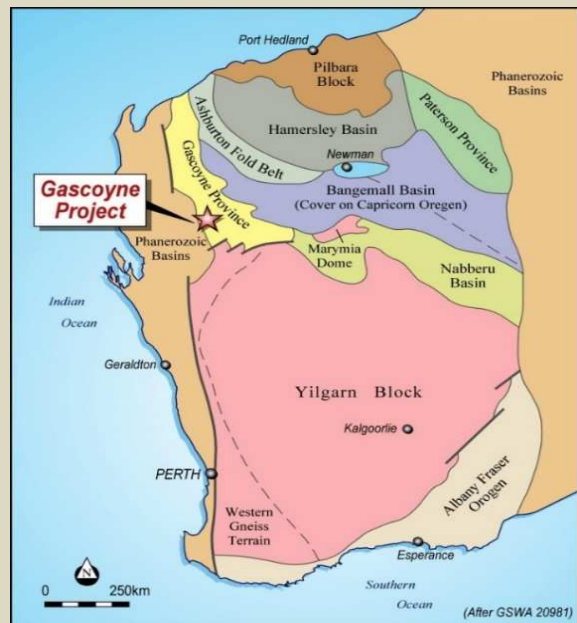


Figure 2: Gascoyne Project - Location Map

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

During the December 2015 quarter there was a mandatory reduction in the original tenement area of the E09/1569 due to six years having passed since the original grant of the exploration licence. The Company continued work evaluating the potential of E09/2102, representing 39% of the total area of the Project, which was granted by the DMP during the September 2015 quarter. The Company is in the process of applying for exemption from the expenditure conditions for the 2014/15 period in relation to each of the tenements forming part of the Gascoyne Project to enable the Company to first bring the level of geological understanding of E09/2102 in line with the rest of the tenement package before planning future works on the Project.

The Company will suspend any further works on the Gascoyne Project until it receives the DMP's decision on the exemption applications from the expenditure conditions for the 2014/15 period.

CORPORATE MATTERS

During the quarter the Company issued 2,500,000 shares to a consultant for services rendered and also issued 2,000,000 shares to the Company's CEO, Mr Brent Butler, following the successful grant of the mining lease M63/656.

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:

Dato Soo Kok Lim
Executive Chairman

Schedule of Tenements as at 31 December 2015

Projects	Licence Number ³	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 ¹	100%

1. Mining lease M63/656 was granted on 13 November 2015.
2. Underlying licences E63/1068, E63/1405, E63/1406, P63/1529, P63/1530, P63/1531, P63/1532, and P63/1533 were relinquished by the DMP following the grant of mining lease M63/656 at the Medcalf Project.

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 December 2015

Consolidated statement of cash flows

Cash flows related to operating activities	Curent 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 and evaluation	(1,473)	(1,962)
(b) development	-	-
(c) production	-	-
(d) administration	(313)	(452)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	14	23
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other – Research and development tax incentive	-	395
Net Operating Cash Flows	(1,772)	(1,996)
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)	(1,772)	(1,996)

+ 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)	(1,772)	(1,996)
	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	625
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other	-	-
	Net financing cash flows	625	625
	Net increase (decrease) in cash held	(1,147)	(1,371)
1.20	Cash at beginning of quarter/year to date	2,437	2,661
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	1,290	1,290

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	(122)
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	(16)
	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

The Company issued 2,500,000 shares for services rendered by a consultant pursuant to an agreement.

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	688
4.2 Development	0
4.3 Production	0
4.4 Administration	115
Total	803

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	275	422
5.2 Deposits at call	1,015	2,015
5.3 Bank overdraft	-	-
5.4 Other	-	-
Total: cash at end of quarter (item 1.22)	1,290	2,437

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	E63/1068 E63/1405 E63/1406 P63/1529 P63/1530 P63/1531 P63/1532 P63/1533	100% Direct Interest	100%	Nil
6.2 Interests in mining tenements and petroleum tenements acquired or increased	M63/656	100% Direct Interest	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	238,660,001	238,660,001		
7.4 Changes during quarter: (a) Increases through issues (b) Decreases through returns of capital, buy-backs	4,500,000	4,500,000	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 January 2016**

(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.