

QUARTERLY REPORT TO 31 MARCH 2018

HIGHLIGHTS

- Programme of work for drill programme approved by DMIRS
- Preparatory work for the exploration drill programme completed
- Environmental approvals progress with the EPA

Audalia Resources Limited (ASX: **ACP**) is pleased to present its report for the March 2018 quarter.

MEDCALF PROJECT

The Medcalf Project is a vanadium-titanium-iron project located some 470 kilometres south east of Perth near Lake Johnston, Western Australia. The Medcalf Project comprises three granted Exploration Licences E63/1133, E63/1134 and E63/1855 as well as mining lease M63/656 and miscellaneous licence L63/75. Together, these licences cover a total area of 38 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.

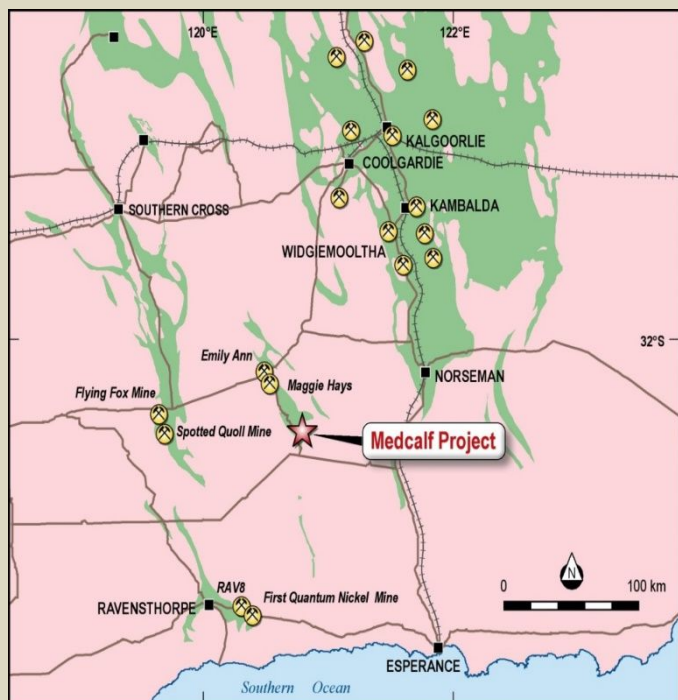


Figure 1: Medcalf Project - Location Map

Exploration drilling programmes

During the March 2018 quarter, the Department of Mines, Industry, Regulation and Safety (**DMIRS**) approved the programme of work for additional regional exploration east of the Fuji deposit. Audalia Resources had defined two additional prospects to the south east of the main resource known as Pinatubo and Kilimanjaro following detailed mapping of the Medcalf Project along with rock chip sampling.

The regional exploration drilling programme was designed to delineate additional mineralisation with the aim of increasing the current mineral resource base. Concurrently, the Company completed drilling to

the west of the Vesuvius prospect This part of the drill programme was conducted in an environmentally sensitive area (**ESA**) using permits granted by the Department of Biodiversity, Conservation and Attractions of Western Australian (**DBCA**).

Preparatory work completed during the March 2018 quarter allowed for drilling to commence on 1 April 2018. Drilling began at the Kilimanjaro prospect to test a strike length of 1.1km on a 160m by 40m drill pattern. Holes were angled at 60° to the southwest. Drilling intersected the host rock, pyroxenite from near surface to a depth of 55m where the inclined hole was terminated at 60m except for the two north-western lines where basalt was intersected. The topography is 100m lower than Vesuvius and for the first time from holes drilled since 2013, fresh rock was intersected at 25m depth. The width of the pyroxenite varied from 10m to 20m and dips 45° to the northeast. To date, 23 holes have been drilled for 937m.

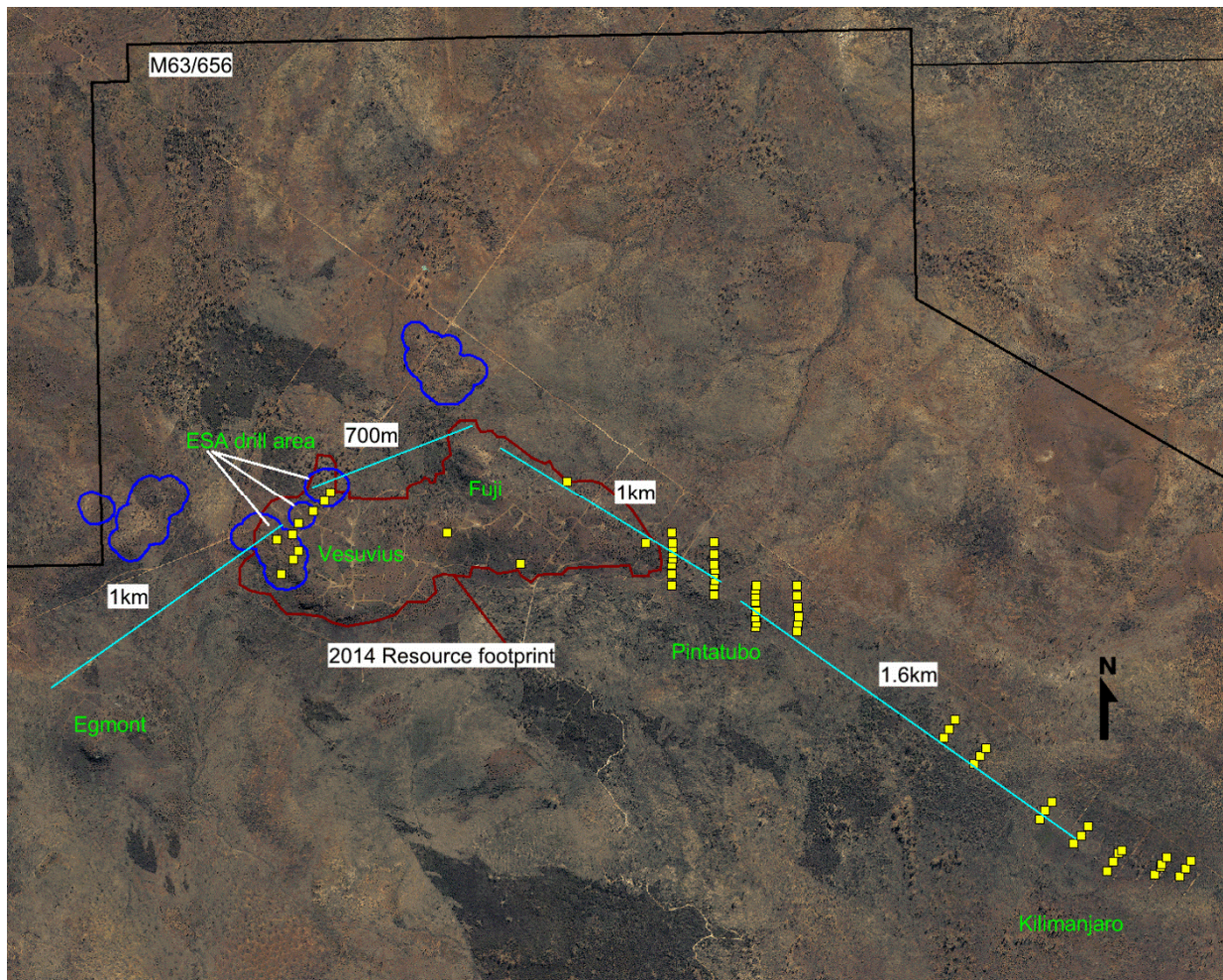


Figure 2: Medcalf Prospect Location Map with holes that have been drilled (yellow).

Drilling has been completed at the Pinatubo prospect where a strike length of 660 metres was tested on a 160m by 40m drill pattern. Holes were drilled vertically.

The four drilllines all intersected the host rock, pyroxenite from near surface to a depth of 25m where it was terminated due downdip to an interpreted north - south fault. A total of 32 holes for 1,039m were drilled.

Drilling has also been completed at the west end of Vesuvius in the ESA that had not been drilled previously. At total of 9 vertical holes were drilled for 711m.

Drilling intersected the host rock, pyroxenite down dip from 40m to a depth of 70m. This drilling is to test the north-western extension of the Vesuvius resource model for additional mineralisation.

In addition, 3 vertical holes for 105m have been drilled in the 2014 resource area to delineate the footwall contact of the mineralisation in key area.

The Company expects to receive and subsequently announce assay results from the drill programmes in the June 2018 quarter. The results will then be used by Cube Consulting to update the 2014 mineral resource model at the Medcalf Project. Cube Consulting will also optimise the model based on current mining study parameters with the aim of increasing the pre-feasibility study estimate for the Project mine life. Audalia Resources expects Cube Consulting to complete the report for the updated mineral resource estimate by July 2018.

Environmental approval

In March 2018, the Company received notification under the *Environmental Protection Act 1986* (WA) from the Environmental Protection Authority of Western Australia (**EPA**) for referral on the Medcalf Project submitted in the December 2017 quarter.

The EPA had advised that the level of assessment is a "*Public Environmental Review, with a proponent prepared Environmental Scoping Document (ESD)*". The Company is working closely with the EPA and DBCA in the preparation of the ESD. Audalia Resources plans to submit the ESD in the June 2018 quarter.

CORPORATE MATTERS

During the quarter, the Company negotiated early repayment and settlement of \$1.625 million of existing loan facilities for \$1 million over a 10-month period. The Company also negotiated a short-term interest-free and fee-free loan of \$0.5 million from a director, Siew Swan Ong, to meet its current capital requirements, which was also repaid during the March 2018 quarter.

In March 2018, the Company secured a new loan facility of \$1 million to complete regional exploration and evaluation activities at the Medcalf Project. Details of the new loan facility were announced to ASX on 16 March 2018. During the March 2018 quarter, Audalia Resources also negotiated the extension of the repayment date of the existing \$2 million loan facility from 20 November 2018 to 20 November 2019.

The Company acknowledges its cash position at the end of the quarter and its estimated cash outflows for the June 2018 quarter. The directors are assessing all funding alternatives to ensure that the Company can continue exploration and evaluation activities and advance the next stage of approvals for the Medcalf Project.

Authorised by:

Brent Butler
CEO and Executive Director

Schedule of Tenements as at 31 March 2018

Projects	Licence Number	Registered Holder / Applicant	Status	Audalia's Interest
<u>Western Australia</u>				
Medcalf	E63/1133	Audalia Resources Limited	Granted	100%
	E63/1134	Audalia Resources Limited	Granted	100%
	M63/656	Audalia Resources Limited	Granted	100%
	E63/1855	Audalia Resources Limited	Granted	100%
	L63/75	Audalia Resources Limited	Granted	100%

Competent Person's Statement

The information in this report relates to the Exploration Results is based on information compiled by Mr Brent Butler, who is a Fellow of The Australasian Institute of Mining and Metallurgy. Mr Butler has 34 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 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, 01/05/13, 01/09/16

Name of entity

Audalia Resources Limited

ABN

49 146 035 690

Quarter ended ("current quarter")

31 March 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers		
1.2 Payments for		
(a) exploration & evaluation	(187)	(717)
(b) development	-	-
(c) production	-	-
(d) staff costs	(17)	(288)
(e) administration and corporate costs	(53)	(238)
1.3 Dividends received	-	-
1.4 Interest received	1	4
1.5 Interest and other costs of finance paid	-	(1)
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	415
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(256)	(825)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	-	-

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	1,500	1,500
3.6	Repayment of borrowings	(1,340)	(1,340)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	160	160

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	917	1,486
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(256)	(825)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4	Net cash from / (used in) financing activities (item 3.10 above)	160	160
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	821	821

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	805	901
5.2 Call deposits	16	16
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	821	917

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A'000
(51)
-

Director Fees	(9)
Consultant Fees – Brent Butler	(20)
Consultant Fees – Geoffrey Han	(22)
Consultant fees paid to Brent Butler relate to the provision of services as CEO of the Company.	
Consultant fees paid to Geoffrey Han relate to the provision of services as project director of the Company.	

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter \$A'000
-
-

N/A

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	3,160	3,160
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

A \$2 million loan attracts an 8% interest rate per annum (compounded daily) and the drawn down amount is payable in full (with accrued interest) on 20 November 2019. The amount is unsecured.

A \$1 million loan attracts an 10% interest rate per annum (compounded daily) and the amount is payable in full (with accrued interest) on 31 March 2020. The loan is unsecured.

A remaining amount of \$160,000 is repayable over the next 9 months in relation to a third loan.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	(585)
9.2 Development	-
9.3 Production	-
9.4 Staff costs	(13)
9.5 Administration and corporate costs	(67)
9.6 Other (provide details if material) – loan repayments	(60)
9.7 Total estimated cash outflows	(725)

10. Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced	N/A			
10.2 Interests in mining tenements and petroleum tenements acquired or increased	N/A			

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here: .....
(CEO and Executive Director)

Date: **30 April 2018**

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.
2. This quarterly report has been prepared in accordance with Australian Accounting Standards, 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 including interpretation 1031 Accounting for the Goods and Services Tax with the exception of the classification of capitalised exploration expenditure and the allocation of the research and development tax incentive as an investing activity. This quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.