

QUARTERLY REPORT TO 30 SEPTEMBER 2011

HIGHLIGHTS

- **Commenced Exploration on the Gascoyne Project**
 - **Anomalous base metal values returned from rock chip sampling**
-

ASX LISTING

Audalia Resources Limited (**Audalia**) (ASX: ACP) is a Perth-based base metal exploration company; with ground holdings in the Gascoyne region of Western Australia (Figure 1).

The Company was admitted to the Official List of ASX on 4 July 2011, after closing its \$1.5 million IPO oversubscribed. The IPO was completed by the issue of 7,660,000 Shares and 3,830,004 options to raise \$1,532,000.

THE GASCOYNE PROJECT

The Gascoyne Project is located approximately 250 km to the east of Carnarvon in the Gascoyne region in Western Australia covering an area of approximately 311km² (Figure 2).

The 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.

The Gascoyne region has been explored for gold, base metals and diamonds initially by some large companies using regional stream sediment, soil and rock chip sampling methods. These explorers considered the Gascoyne region 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. A gahnite study by one company in 2003 highlighted the BHT Ag-Pb-Zn potential of the Proterozoic Morrissey Metamorphic Suite within the Gascoyne Project.

A detailed airborne magnetometer survey by another company in 2007 showed that the Gascoyne Project area is dominated by a west-northwest striking domal antiform showing several "thumbprint" magnetic anomalies. Base metal mineralisation at Golden Grove and the recent discovery of Zn mineralisation at Erayinia is spatially associated with similar thumbprint magnetic anomalies, which reflect magnetite introduced during hydrothermal alteration.

A number of target zones were identified from a geochemical auger drilling programme during 2008 following up some of the previous anomalous geochemistry and magnetic anomalies. An RC drilling programme completed during the same year confirmed the potential for base metal deposit discovery with significant results of up to 2.3% Pb and 0.9% Cu in two areas of base metal mineralisation 9 km apart.

At the sites of the significant drill results limited ground geophysics traverses were also completed using Induced Potential (IP – Resistivity Dipole-Dipole) and Mise-a-la-Masse surveys. These confirmed good, untested conductors at depth.

In addition there are several untested geophysical and geological targets that are considered to be potentially mineralised. This current geological model of base metal mineralisation being associated with coincident soil geochemistry and “thumbprint” magnetic anomalies offers significant potential for the discovery of new base metal deposits in this under explored region of Western Australia.

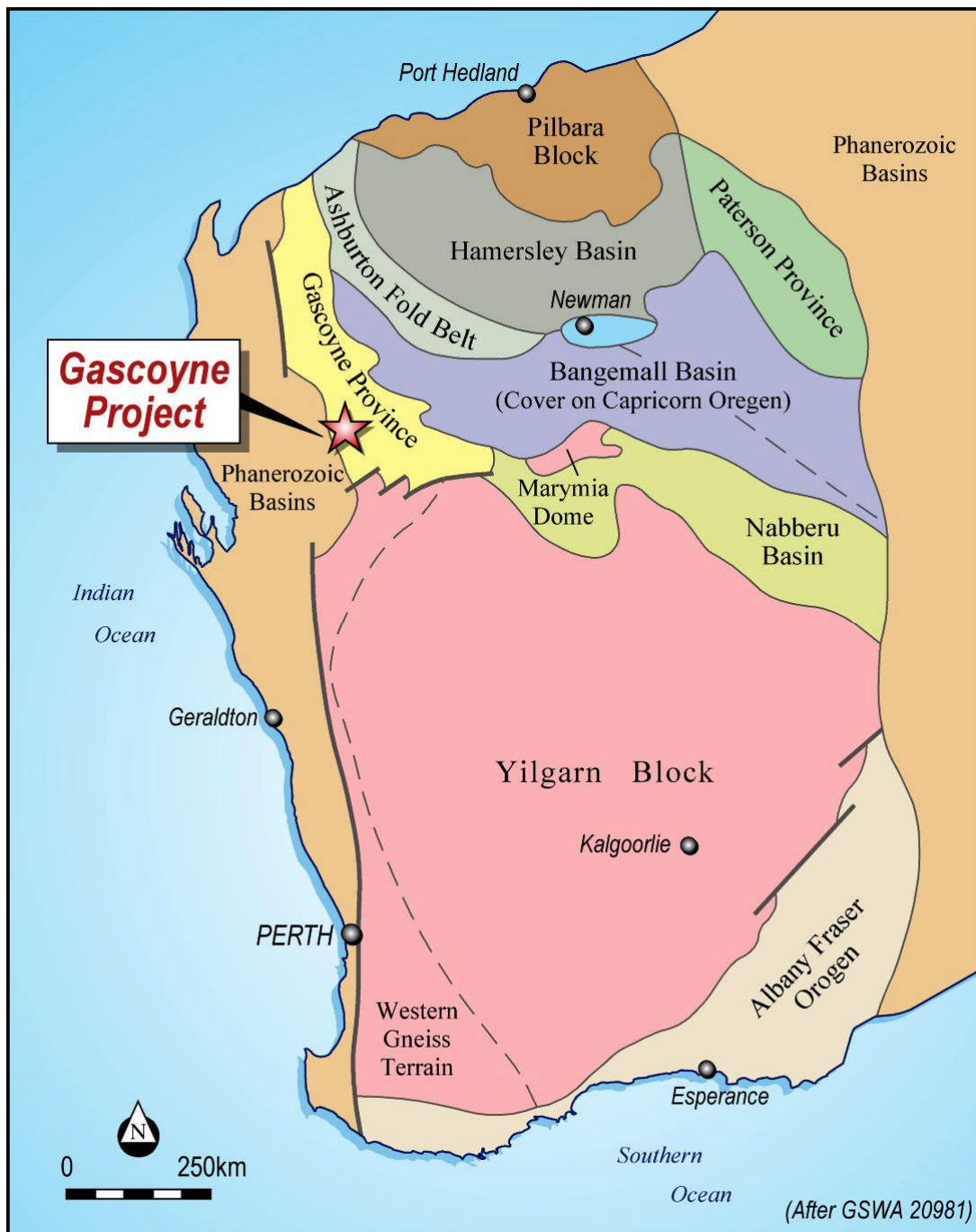


Figure 1: Gascoyne Base Metal Project - Location Map

Rock Chip Sampling

A total of 14 rock chip samples were collected from the Gascoyne Project as part of a reconnaissance geological mapping programme during the quarter. The rock chip sampling programme targeted the “thumbprint” anomalies and gossanous areas identified by previous geological/regolith interpretation. The samples were submitted to Ultra Trace Laboratories, Perth. Samples were assayed for a suite of elements, which included, Gold (Au), Silver (Ag), Barium (Ba), Copper (Cu), Manganese (Mn), Molybdenum (Mo), Nickel (Ni), Lead (Pb) and Zinc (Zn).



Figure 2: Location map of rock chip samples.

Analyses of the rock chip samples has returned anomalous values of up to 240 ppm Cu, up to 202 ppm Zn and 138 ppm Pb. In addition pathfinder elements such Mo (24.3 ppm) and Ba (2550, 2880 ppm) have also returned anomalous values (Table 1). Some of the anomalous base metal results are associated with gossanous outcrops identified by previously completed geological/regolith interpretation. The anomalous rock chip sample results were also plotted over the aeromagnetic data images. There appears to be a correlation between anomalous base metal assays and the conformable chloritic bands in the rock strata, which are believed to have been derived from mafic/basic flows, but may also represent hydrothermal alteration. These mafic iron rich units may be the host rocks base metal mineralisation within the area.

Table 1: Gascoyne Project anomalous multi-element results

Sample No	East	North	Pb ppm	Zn ppm	Cu ppm	Mo Ppm	Ba ppm
11AUD00005	370678	7276958					2030
11AUD00014	376592	7286791					2550
11AUD00022	383552	7273819				24.3	
11AUD00027	384031	7274984	85	242	240		
11AUD00032	379604	7278746	125	202	150		

**Samples were analysed for Pb-Ag-Ba-Mo by multi-acid digest and determined by Inductively Coupled Plasma (ICP) Mass Spectrometry (MS). Cu-Zn-Ni-Mn were analysed multi-acid digest and determined by flame Atomic Absorption Spectrometry (AA). In addition Au was analysed by Aqua Regia digest, solvent extraction and then flame Atomic Absorption Spectrometry (SAA).*

Aerial Photography

Digital aerial photography and hardcopy prints at a scale of 1:25,000 and 1:40,000 was purchased through LANDGATE in Perth. The aerial photography will allow for the completion of further regolith and geological interpretation to be completed over the whole of the project area. This interpretation is expected to lead the identification of new gossanous outcrops some of which were located as part of the field reconnaissance completed during the quarter.

Proposed Exploration

The rock chip sampling programme and reconnaissance geological mapping completed during quarter have returned encouraging anomalous base metal and pathfinder values that are worthy of follow up exploration work comprising of a systematic auger soil sampling programme.

The Gascoyne Project remains prospective to host a stratabound lead-zinc (copper) mineralisation of the Broken Hill type.

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 Noel Ong, who is a member of the Australasian Institute of Mining and Metallurgy. Mr Ong is a consultant geologist with 18 years' experience as a geologist. Mr Ong 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 Ong 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")

30 September 2011

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (3 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(35)	(35)
(b) development	-	-
(c) production	-	-
(d) administration	(38)	(38)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	5	5
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	(68)	(68)
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 (provide details if material)	-	-
Net investing cash flows	-	-
1.13 Total operating and investing cash flows (carried forward)	(68)	(68)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(68)	(68)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc. (net of issue costs)	(85)	(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)	(85)
Net increase (decrease) in cash held		(153)	(153)
1.20	Cash at beginning of quarter/year to date	2,362	2,362
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	2,209	2,209

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	(39)
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	(5)
Services provided by director-related entities	(34)

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	(100)
4.2 Development	-
4.3 Production	-
4.4 Administration	(75)
Total	(175)

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	459	2,362
5.2 Deposits at call	1,750	-
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	2,209	2,362

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	-	-	-	-

+ 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	<i>Exercise price</i> 20 cents	<i>Expiry date</i> 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: **27 October 2011**
(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.

== == == == ==