

QUARTERLY REPORT TO 30 SEPTEMBER 2014

HIGHLIGHTS

- Upgrade to Indicated Resource (JORC 2012) at flagship Vanadium Medcalf Project.
- Sampling programme completed on topsoil and waste rock characterisation for the purposes of rehabilitation of drill sites upon completion of exploration activities at the Medcalf Project.
- Spring Flora and Fauna surveys commenced at Medcalf Project.

Audalia Resources Limited (ASX: **ACP**) is pleased to present its report for the September 2014 quarter.

MEDCALF PROJECT

The Medcalf Project is a vanadium-titanium project located some 470 kilometres south east of Perth near Lake Johnson, Western Australia. The Medcalf Project comprises five granted Exploration Licences E63/1068, E63/1133, E63/1134, E63/1405 and E63/1406 and Prospecting Licences P63/1528-33 inclusive and P63/1560 and P63/1561 covering a total area of 24 km².

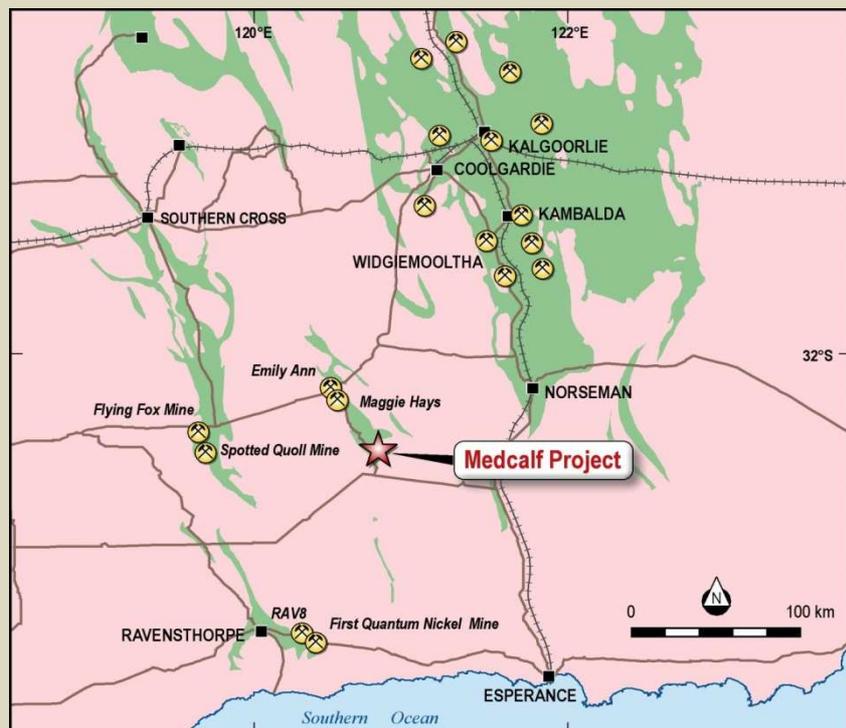


Figure 1: Medcalf Project - Location Map

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.

MEDCALF PROJECT (continued)

Mineral Resource Upgrade

As announced to the market on 18 August 2014, the Company reported a significant upgrade in the JORC 2012 mineral resource classification for its Medcalf Project. This upgrade followed revision of the geological and mineralisation modelling in conjunction with updated and ongoing metallurgical extraction testwork. The Medcalf Project's mineral resource estimate now stands at 31.8 Mt at 0.45% V205 for contained vanadium pentoxide contents of approximately 108,000 tonnes in the Indicated category and 35,000 tonnes in the Inferred category.

This compares to the maiden Inferred Resource of 28.5 Mt at 0.50% V205 announced in 2013.

The mineral resource has been interpolated within geological wireframe the using a 0.20% V₂O₅ lower cut and is tabulated below.

<i>Mineral Resources for the Medcalf Deposit - JORC 2012</i>				
Resource Category	Tonnes (Mt)	V ₂ O ₅ (%)	TiO ₂ (%)	Cut-off V ₂ O ₅ (%)
Measured	-			
Indicated	23.0	0.47	8.5	0.2
Inferred	8.8	0.40	8.1	0.2
TOTAL	31.8	0.45	8.4	0.2

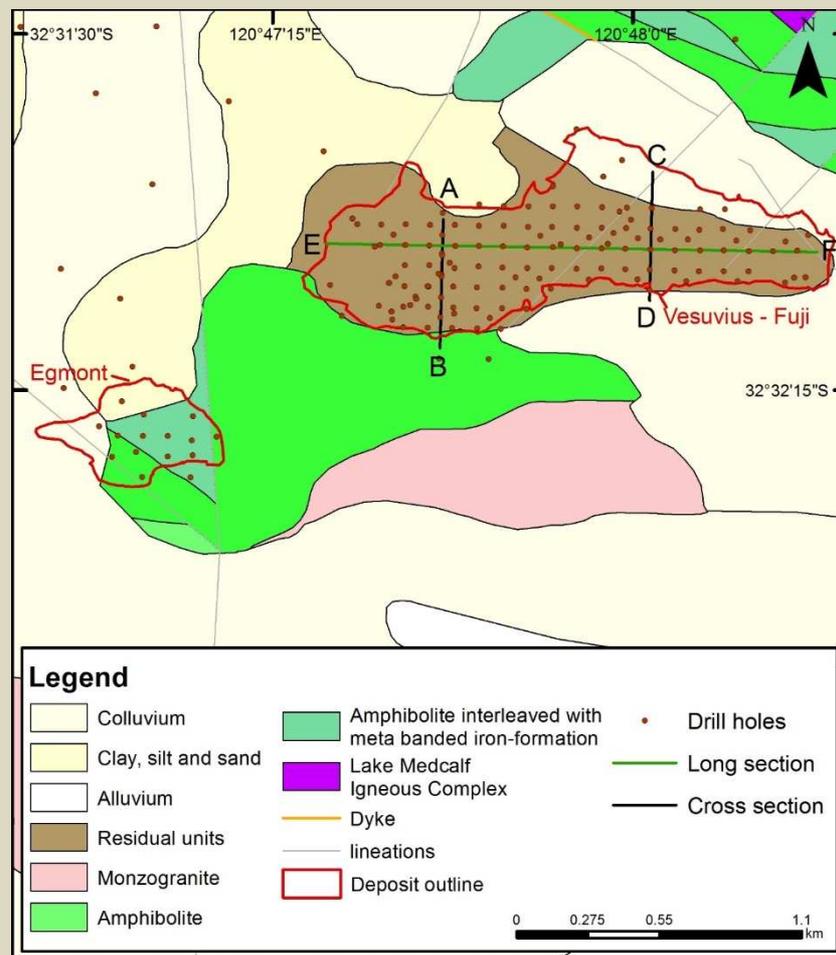


Figure 2: Geological map of the Medcalf deposit with drill collars and resource outline

MEDCALF PROJECT (continued)

This mineral resource estimate was prepared in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2012 Edition (JORC 2012). The Checklist of Assessment and Reporting Criteria was also provided with the technical report in line with the guidelines of the JORC Code (2012).

The Company's independent mineral resource estimates were developed by Ravensgate.

Metallurgical test work programme

Testwork programmes continue to be undertaken to develop an appropriate and effective metallurgical flow sheet. Studies to date have entailed mineralogical characterisation, XRD analysis, Saturated Magnetic Analyser determinations, QEMSCAN analysis, SEM/EDS analysis, bench scale magnetic separation tests using laboratory wet high intensity magnetic separator, gravity shaking table, flotation and roach leach test work. Mintek have researched and trial a variety of flowsheets to treat the Medcalf ore and have consistently found ways to improve the recoveries. The best results obtained from work conducted to date is a flow sheet which yields a metallurgical recovery of 62%.

The metallurgical study has, as yet, not been fully documented as the work is in progress. This confirms the potential for the Medcalf Project to support a viable mining operation, and underpins Audalia's intention to continue development work and undertake a comprehensive prefeasibility study.

Further test work on 50kg run of mine composite sample of Medcalf core has been commissioned and completed in a specialised metallurgical laboratory in Germany. Results from this testwork are expected to be received during the December 2014 quarter.

Flora and Fauna Surveys

The following flora and fauna surveys commenced in the September 2014 quarter for the Spring season:

- Level 1 flora and fauna survey for the proposed haul road (Miscellaneous license L63/68);
- Level 2 flora survey for the mining lease (M63/656); and
- Targeted searches up to a 20km radius from Medcalf for flora of conservation significance outside the mining lease application.

These Spring surveys concluded in the December 2014 quarter but the reports are not expected to be received until the March 2015 quarter. The environmental consultant will follow up to conclude the Autumn season surveys in around March/ April 2015.

Other work completed

Botanica Consulting Services from Kalgoorlie assisted with design of a sampling programme which sought to analyse the topsoil and waste rock for the purposes of rehabilitation of drill sites upon completion of exploration activities and in accordance with the Company's Conservation Management Plan. Ore-waste rock characterisation on selected drillholes and 10 surface locations outside the drilling area was completed. A total of 33 samples were analysed for a range of elements and results indicated that there are no hostile materials with the exception of one sample that had elevated nickel within the waste rock. The results show that soils have good nutrient levels which are ideal for use in waste rock landform rehabilitation. A full set of results were included in the Medcalf Project Exploration Update lodged with ASX on 25 July 2014.

GASCOYNE PROJECT

The Gascoyne Project comprises 100% owned tenements covering 311 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.

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

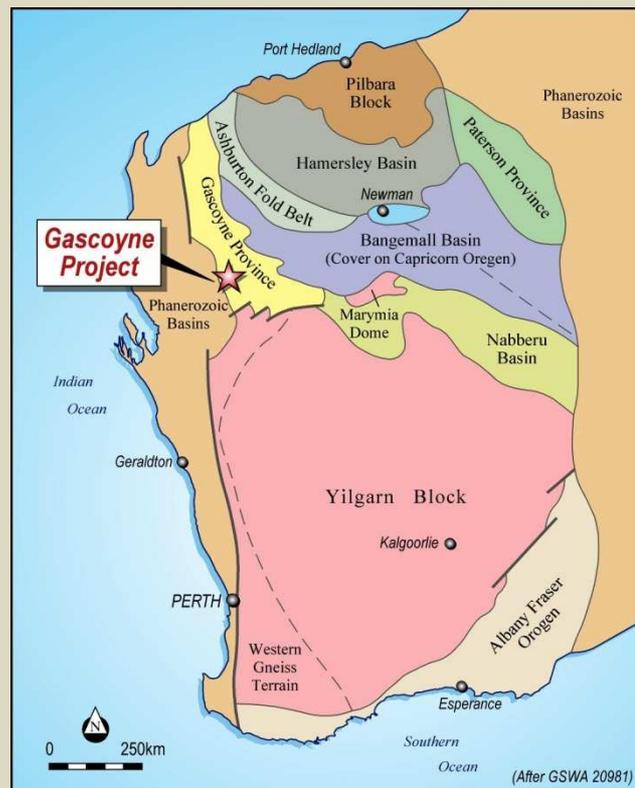


Figure 3: Gascoyne Project - Location Map

Activities during the quarter

A reconnaissance rockchip and trap-site stream sediment sampling program was carried out in August 2014 over all the tenements.

Sixteen minus 80 mesh follow-up stream sediment samples were collected from two catchments to more closely define the source of the lead anomalies generated from last field programme during June. Best result obtained was 171ppm lead. Six minus 3mm trap-site 2kg trap-site stream sediment samples were collected over a previous gold anomaly. Best result obtained was 4.63ppb gold. Sixty two rockchip samples were collected mostly from ironstones or ironstone quartz veins from Banded Iron Formations (BIFs) that have been mapped and traced along a total strike length of 25km and outcrop over a north-south distance of 30km and an east-west distance of 19km. A full listing of results were included in the Gascoyne Project Exploration Update lodged with ASX on 16 September 2014.

CORPORATE MATTERS

In August 2014, the Company secured a short-term loan of \$700,000 (**Loan**) for the purposes of supplementing working capital. The Loan is unsecured and attracts an interest rate of 8% per annum which is payable on the repayment date of the Loan, being 20 January 2015.

In September 2014, the Company entered into a subscription agreement with a sophisticated investor for a total of 4,000,000 Shares at an issue price of \$0.375 per Share to raise \$1.5 million before costs (Subscription Agreements). The Subscription Agreements contemplate the completion the placement in two tranches, as follows:

- Tranche 1: Placement of 2,000,000 Shares to raise \$750,000 on 15 November 2014; and
- Tranche 2: Placement of 2,000,000 Shares to raise \$750,000 on 15 January 2015.

CORPORATE MATTERS (continued)

The proposed issue of Shares will be made under the Company's 15% capacity under Listing Rule 7.1.

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:

Dato Soo Kok Lim
Executive Chairman

Competent Person's Statement

The information in this report that relates to the Mineral Resource for the Medcalf Project is based on information compiled by Stephen Hyland, who is a director of Ravensgate. Mr Hyland is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Hyland has had sufficient experience that is relevant to the style of mineralisation, type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 edition of the Australasian Code for Reporting of Exploration, Results, Mineral Resource and Ore Reserves (JORC Code 2012). Mr Hyland consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.

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 30 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 2012 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.

Schedule of Tenements as at 30 September 2014

Projects	Licence Number	Registered Holder / Applicant	Status	Audalia's Interest
<u>Western Australia</u>				
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	Pending	100%
Medcalf	E63/1068	Audalia Resources Limited	Granted	100%
	E63/1405	Audalia Resources Limited	Granted	100%
	E63/1406	Audalia Resources Limited	Granted	100%
	P63/1528	Audalia Resources Limited	Granted	100%
	P63/1529	Audalia Resources Limited	Granted	100%
	P63/1530	Audalia Resources Limited	Granted	100%
	P63/1531	Audalia Resources Limited	Granted	100%
	P63/1532	Audalia Resources Limited	Granted	100%
	P63/1533	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	Pending	100%
	L63/68	Audalia Resources Limited	Pending	100%

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")

30 September 2014

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (3 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration and evaluation	(476)	(476)
(b) development	-	-
(c) production	-	-
(d) administration	(132)	(132)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	2	2
1.5 Interest and other costs of finance paid	(6)	(6)
1.6 Income taxes paid	-	-
1.7 Other	-	-
Net Operating Cash Flows	(612)	(612)
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	(0)	(0)
1.13 Total operating and investing cash flows (carried forward)	(612)	(612)

+ 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)	(612)	(612)
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	700	700
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other	-	-
Net financing cash flows		700	700
Net increase (decrease) in cash held		88	(88)
1.20	Cash at beginning of quarter/year to date	350	350
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	438	438

Payments to directors of the entity, associates of the directors, 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	(81)
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 directors' remuneration (14) Services provided by director-related entities (67)		

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	(530)
4.2 Development	-
4.3 Production	-
4.4 Administration	(130)
Total	(660)

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	53	75
5.2 Deposits at call	385	275
5.3 Bank overdraft	-	-
5.4 Other	-	-
Total: cash at end of quarter (item 1.22)	438	350

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	230,160,001	230,160,001		
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>	-	-	<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: **30 October 2014**

(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.
- 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.