

QUARTERLY REPORT TO 31 DECEMBER 2016

HIGHLIGHTS

- **Interim metallurgical testwork for Medcalf nears completion.**
- **Planning for Medcalf DFS commences.**
- **EM Survey work commences at Gascoyne.**

Audalia Resources Limited (ASX: **ACP**) is pleased to present its report for the December 2016 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 as well as 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.

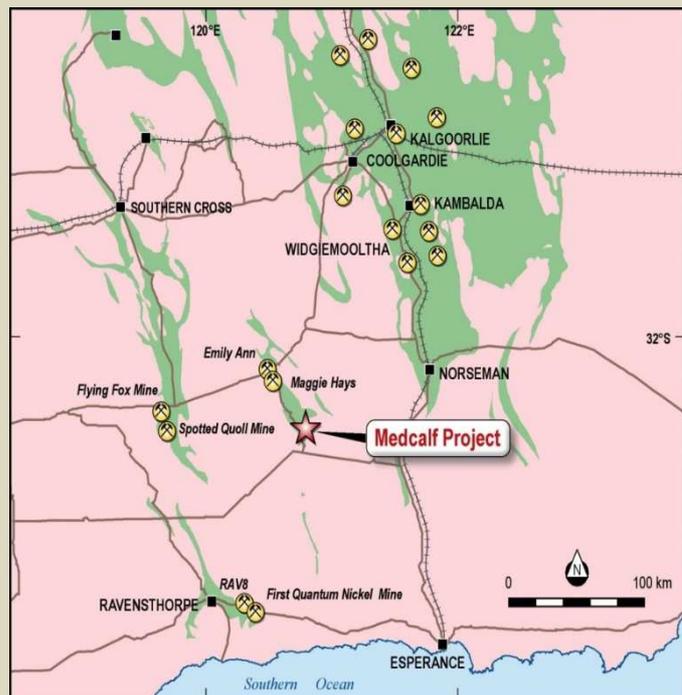


Figure 1: Medcalf Project - Location Map

Interim metallurgical testwork programme

Audalia continued to focus on the interim metallurgical testwork programme during the quarter with the independent overseas consultant advancing work to optimise the process flow sheet, product recovery and grade.

Concurrently, the Company also engaged local consultant, Nagrom, during the quarter to assist with further refinement of the beneficiation process. Having delivered core from the November 2015 PQ drilling programme to Nagrom's laboratory in Kelmscott in December 2016, Audalia anticipates both testwork programmes to conclude during the March 2017 quarter.

MEDCALF PROJECT (continued)

Definitive feasibility study

In the December 2016 quarter, the Company commenced the planning process for its definitive feasibility study (**DFS**). With the interim metallurgical testwork nearing completion, the planning process will continue into the March quarter with the DFS on schedule to commence in 2017.

Diamond core drilling programme

On 13 October 2016, the Company announced the results from the PQ diamond core drilling programme conducted in November 2015. The core has provided critical samples for the DFS as well as interim testwork and the results from the programme further supports the Company's resource statement.

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.

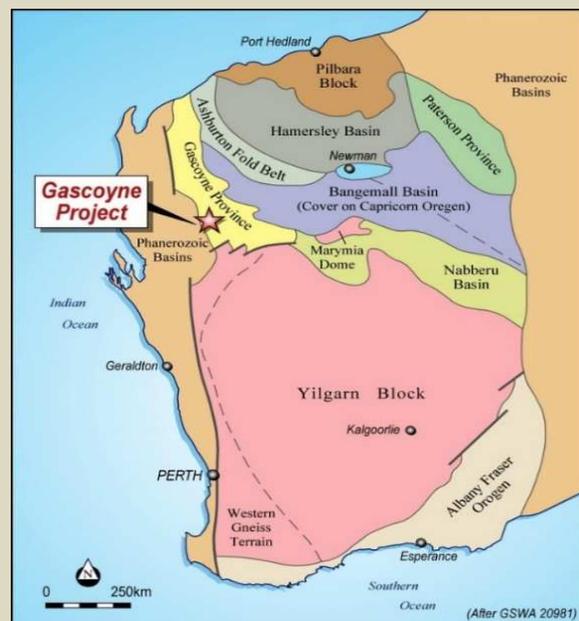


Figure 2: Gascoyne Project - Location Map

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

Rock chip sampling programme

During the quarter, the Company also released the results from the rock chip samples collected by the Company's consultant geologist from exploration licence E09/2102 during the September 2016 quarter. The rock chip sampling programme focused on Banded iron gravels with the primary purpose of identifying manganese, a key indicator for a Broken Hill Banded Iron Formation (**BIF**) mineralisation of lead, zinc and silver.

The results from programme were announced to ASX on 13 October 2016 with two samples returning positive mineralisation.

EM Survey

During the quarter, the Company engaged the services of GPX Surveys in Belmont to carry out a helicopter airborne Electromagnetic magnetic (**EM**) survey over the prospective BIF in order to locate massive sulphides within the folds of the BIF. The survey covers 942.4 line kilometres at 200m spacing's in a north south direction with an additional 96.4 line kilometres which are tie lines flown in an east west direction. The Company secured an XTEM helicopter time domain electromagnetic system to undertake the work.

On completion of the programme, the data collected will analysed by a geophysicist to interpret and identify possible drill targets.

CORPORATE MATTERS

The Company received an Australian Government R&D tax rebate of approximately \$1.12 million for the year ended 30 June 2016. The funds from the R&D tax rebate will be used to advance exploration and evaluation activities at the Company's Medcalf and Gascoyne Projects and to supplement the Company's existing cash reserves.

During the quarter, the Company received applications for forfeiture of tenements that were lodged by Serena Minerals Pty Ltd (**Serena Minerals**) in relation to certain tenements comprising the Gascoyne Project and owned by Audalia, exploration licences E09/1568, E09/1569, E09/1570, E09/1824 and E09/1825. Audalia was in negotiations with Serena Minerals in respect of a potential farm in and joint venture arrangement in respect of the Gascoyne Project during the September and December 2016 quarters and those negotiations were the subject of a confidentiality agreement.

The Company intends to vigorously defend these applications but the applications do not prevent the Company from continuing its planned exploration activities at the Gascoyne 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:

Brent Butler
CEO and Executive Director

Schedule of Tenements as at 31 December 2016

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	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	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 32 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 December 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers		
1.2 Payments for		
(a) exploration & evaluation	(151)	(535)
(b) development	-	-
(c) production	-	-
(d) staff costs	(11)	(19)
(e) administration and corporate costs	(127)	(226)
1.3 Dividends received	-	-
1.4 Interest received	2	3
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	1,121	1,121
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	834	344

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	-	-

Mining exploration entity and oil and gas exploration entity quarterly report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 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	-	1,433
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	(23)	(39)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
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	(23)	1,394

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,810	883
4.2	Net cash from / (used in) operating activities (item 1.9 above)	834	344
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)	(23)	1,394
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	2,621	2,621

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	2,606	1,795
5.2 Call deposits	15	15
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)	2,621	1,810

6. Payments to directors of the entity and their associates	Current quarter \$A'000
6.1 Aggregate amount of payments to these parties included in item 1.2	(94)
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	

Director Fees	(13)
Consultant Fees	(81)

7. Payments to related entities of the entity and their associates	Current quarter \$A'000
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	

N/A

Mining exploration entity and oil and gas exploration entity quarterly report

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	4,000	3,625
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.		

The loans attract an 8% interest rate per annum (compounded daily) and the drawn down amount is payable in full (with accrued interest) on 20 November 2018. The amount is unsecured.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	(1,014)
9.2 Development	-
9.3 Production	-
9.4 Staff costs	(12)
9.5 Administration and corporate costs	(146)
9.6 Other (provide details if material)	-
9.7 Total estimated cash outflows	(1,172)

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: **31 January 2017**

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. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
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.