

QUARTERLY REPORT TO 30 JUNE 2016

HIGHLIGHTS

- **Metallurgical testwork continues on the Medcalf Project.**
- **Approvals received and permits granted for drilling at Medcalf.**
- **Field work commences at Gascoyne.**

Audalia Resources Limited (ASX: **ACP**) is pleased to present its report for the June 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, and three Prospecting Licences P63/1528, P63/1560 and P63/1561 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.

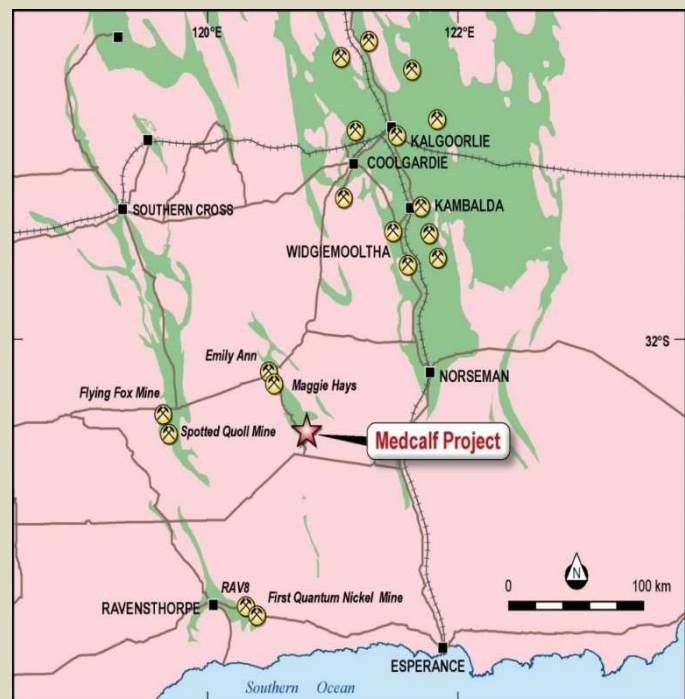


Figure 1: Medcalf Project - Location Map

Interim metallurgical testwork programme

The Company, together with its independent overseas consultant, continued the interim metallurgical testwork programme to optimise the flow sheet and increase confidence in the key assumptions used in the pre-feasibility study which was completed in March 2016. Following positive initial results on beneficiated concentrate, the Company prepared a further shipment of core sample for the November 2015 drill programme in order to conduct the full metallurgical testwork programme. The testwork programme, which is expected to conclude in the December 2016 quarter, will include the examination of alternative process options which the Company will consider prior to commencing the definitive feasibility study.

MEDCALF PROJECT (continued)

Drill core programme

During the quarter, the PQ core from the November 2015 drill programme was processed and sampled by Intertek. The assay results from the crushed core sample are expected to be received during the September 2016 quarter. A portion of the core sample has been selected for the metallurgical testwork programme. Work conducted on this core will also assist in further defining the existing mineral resource.

Drill programme approvals

The June 2016 quarter saw the Company receive approvals for the Programme of Works from Department of Mines and Petroleum (“DMP”) and permits granted by the Department of Parks and Wildlife (“DPaW”) to enable the Company to undertake drill programmes to upgrade the existing Mineral Resource to an Ore Reserve estimate at the Medcalf Project. Due to unfavourable weather conditions, the Company will defer all work proposed at the Medcalf Project until the December 2016 quarter.

Environmental work

During the quarter, the Company completed and lodged its annual mineral resource fund report to the DMP. In May 2016, the Company also received confirmation from DPaW that Audalia’s Conservation Management Plan is acceptable to DPaW’s departmental standards.

Survey

In June 2016, Cardno Surveys, a DMP approved licenced surveyor, was engaged by Audalia to conduct the survey required under the Mining Act 1978 for mining lease M63/656. The survey is expected to be conducted in the September 2016 quarter.

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.

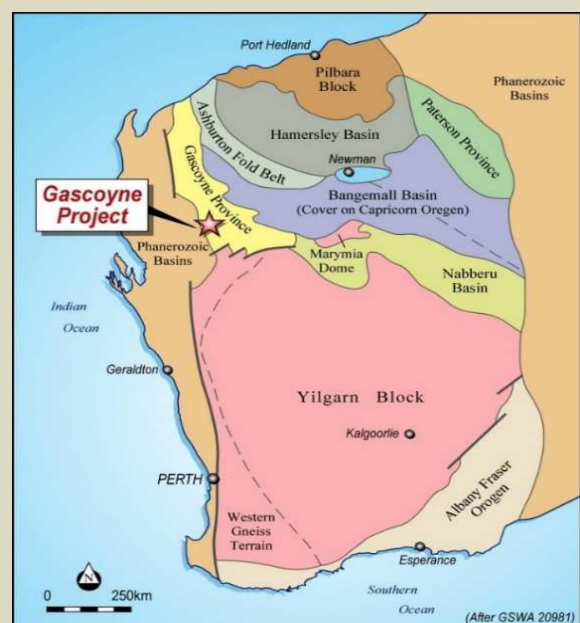


Figure 2: Gascoyne Project - Location Map

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

Environmental work

During the quarter, the Company submitted the annual mineral resource fund report to the DMP.

Field work and exemptions

During the June quarter, the Company received approvals from the DMP in response to the Company's applications for exemptions from expenditure conditions in the 2014/15 periods. This pathed the way for the Company to commence field work at the Gascoyne Project with a consultant geologist undertaking rock chip sampling on exploration licence E09/2102. The programme will continue into the current quarter with the analysis and results expected to be received by the end of the September quarter.

CORPORATE MATTERS

On 30 June 2016, the Company announced the appointment of Mr Xu (Geoffrey) Han as a non-executive director of the Company. Mr Han is a qualified chemical engineer specialising in mining project development. He is currently assisting the Company as it undertakes the overseas metallurgical testwork programme and will continue to guide the Board of Directors as Audalia moves towards the next stage of development of the Medcalf Project. Audalia also accepted the resignation of Mr Raymond Browning as a non-executive director of the Company.

The Company acknowledges its cash position at the end of quarter and its estimated cash outflows for the September 2016 quarter. The directors are assessing all funding alternatives to ensure that the Company can continue field work at the Gascoyne Project, complete the overseas metallurgical testwork programme and 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:

Brent Butler
CEO and Executive Director

Schedule of Tenements as at 30 June 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 Member 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, 01/05/2013

Name of entity

AUDALIA RESOURCES LIMITED

ABN

49 146 035 690

Quarter ended ("current quarter")

30 June 2016

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration and evaluation	(148)	(3,040)
(b) development	-	-
(c) production	-	-
(d) administration	(63)	(390)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	3	37
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other – Research and development tax incentive	-	995
Net Operating Cash Flows	(208)	(2,398)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	(5)
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	-	(5)
1.13 Total operating and investing cash flows (carried forward)	(208)	(2,403)

+ 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)	(208)	(2,403)
	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
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other	-	-
	Net financing cash flows	-	625
	Net increase (decrease) in cash held	(208)	(1,778)
1.20	Cash at beginning of quarter/year to date	1,091	2661
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	883	883

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	(31)
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	(11)
	Services provided by director-related entities	(20)

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

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 (1)	4,000	3,625
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	(630)
4.2 Development	-
4.3 Production	-
4.4 Administration	(120)
Total	(750)

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	868	1076
5.2 Deposits at call	15	15
5.3 Bank overdraft	-	-
5.4 Other	-	-
Total: cash at end of quarter (item 1.22)	883	1,091

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	240,660,001	240,660,001		
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: **29 July 2016**

(Executive Director & CEO)

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 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* including interpretation 1031 Accounting for the Goods and Services Tax 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.