

QUARTERLY REPORT TO 30 JUNE 2018

HIGHLIGHTS

- **Drilling programme completed, and significant results received and announced to the market.**
- **Resource modelling underway.**
- **Draft Environmental Scoping Document (ESD) submitted to EPA**

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

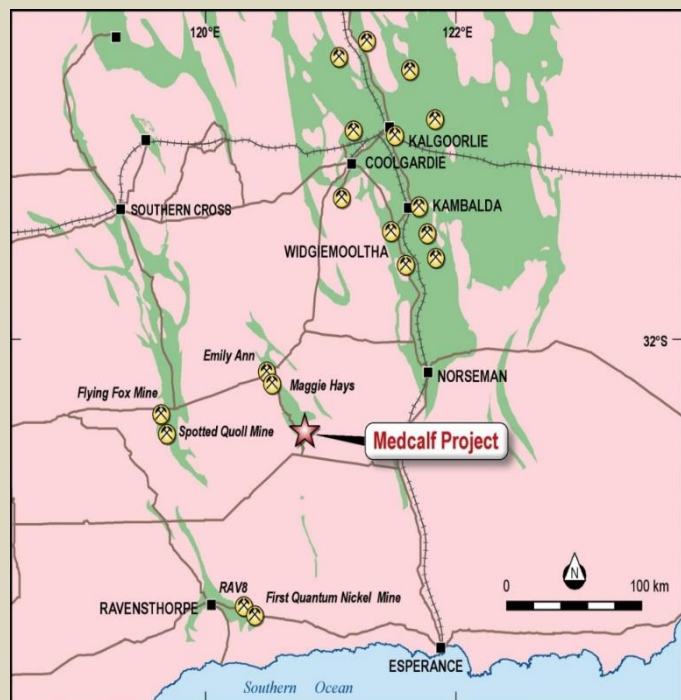


Figure 1: Medcalf Project - Location Map

Exploration Drilling Programmes Completed

During the June 2018 quarter, the Company completed a 89-hole RC drill programme for 3,794m (Figure 2) drilled on Mining Lease M63/656. The regional exploration drilling programme was designed to delineate additional mineralisation with the aim of increasing the current mineral resource base through drilling in adjacent areas (Pinatubo and Kilimanjaro Prospects) previously not drilled and tested. 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**). The Company

also completely drilling on the northern side of the Fuji Prospect to support the current Resource for upgrading the Inferred category and test for additional mineralisation.

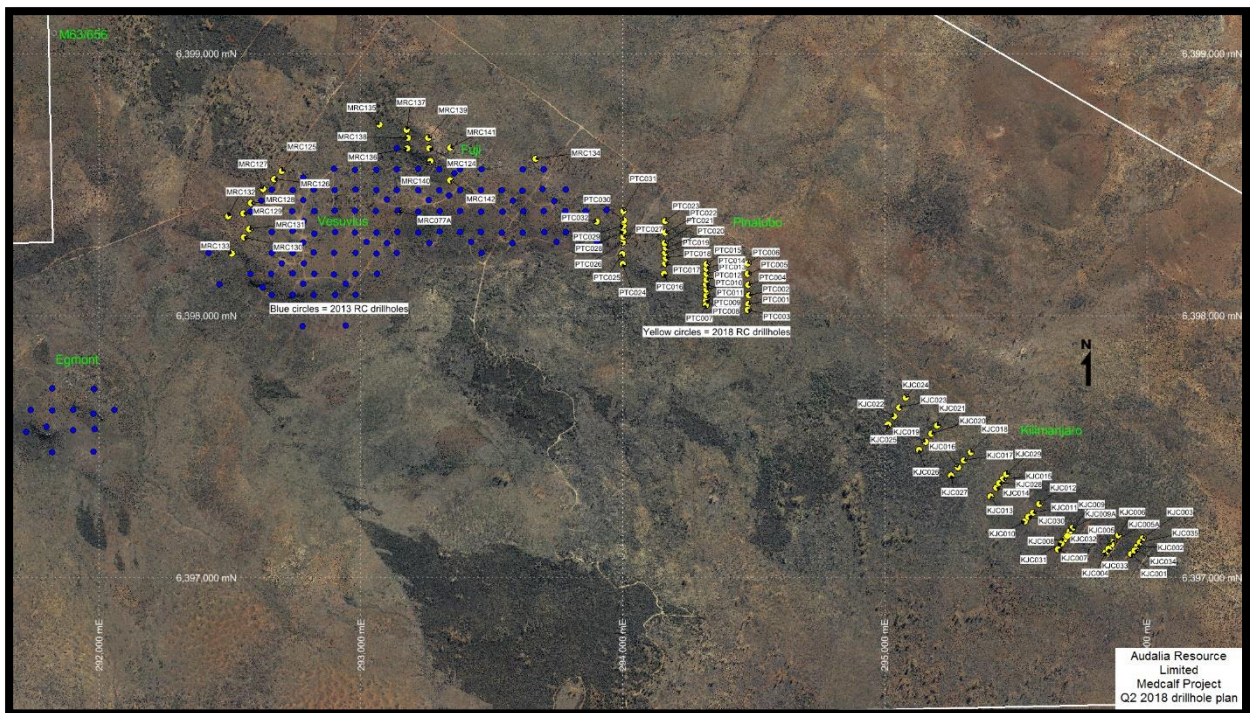


Figure 2: Medcalf Prospect Location Map with June quarter holes drilled (yellow).

Significant results were returned from this drilling and full results were announced to the ASX on 27 June 2018. The major highlights from this drilling programme were:

- The widest mineralised intercepts ever drilled through the Medcalf sill. These include:
 - ❖ MRC130 78m @ 8.47% TiO₂, 0.42% V₂O₅ and 44.42% Fe₂O₃
 - ❖ MRC131 74m @ 9.63% TiO₂, 0.49% V₂O₅ and 55.45% Fe₂O₃
- Two additional prospects, Pinatubo and Kilimanjaro, defined with significant intercepts.
- Fuji northwest limb defined and still open with MRC135 intersecting 30m @ 6.41% TiO₂, 0.29% V₂O₅ and 34.26% Fe₂O₃.

Resource Modelling Commenced

The Company last reported an update to the mineral resource estimate in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2012 Edition (**JORC 2012**) on 18 August 2014.

Since then, the Company has drilled seventeen PQ core holes during 2015, completed detailed mapping and now completed an 89 RC drillholes of which 67 holes have been drilled into two additional areas Pinatubo and Kilimanjaro that lie outside the 2014 resource footprint.

The database has now been updated and contains:

- ❖ 19 PQ core holes for 839.2m
- ❖ 212 RC drillholes for 7,340m

Total database is 231 drillholes for 8,179.2m.

Cube Consulting commenced during the quarter to build a new geological interpretation and block model.

Subsequent to the end of the quarter, the geological interpretation was completed and modelled. A new Mineral Resource estimate is expected to be announced in the September 2018 quarter.

Mining Engineering Study

Cube Consulting will also complete the mining engineering study after completion of the Resource model to optimise open pit mine design options and production schedules based on the latest resource block models and revised operation parameters. The Medcalf Project life of mine will also be reviewed for potential extension with the updated mineral resource.

Environmental Approval

The Company is working closely with the regulators, including EPA and DBCA, to progress the environmental approval application. The draft Environmental Scoping Document was submitted to EPA for assessment in the June 2018 quarter.

CORPORATE MATTERS

During the June 2018 quarter, the Company completed a one-for-one entitlement issue to shareholders at an issue price of \$0.01 per share. The entitlement issue offer was well received by shareholders, with the Company raising \$2.08 million (before costs).

The funds raised under the entitlement issue will be used towards the advancement of the exploration and evaluation work at the Company's Medcalf Project, as well as supplement general working capital.

Authorised by:

Brent Butler
CEO and Executive Director

Schedule of Tenements as at 30 June 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")

30 June 2018

| Consolidated statement of cash flows | Current quarter \$A'000 | Year to date (12 months) \$A'000 |
|---|----------------------------|--|
| 1. Cash flows from operating activities | | |
| 1.1 Receipts from customers | | |
| 1.2 Payments for | | |
| (a) exploration & evaluation | (859) | (1,576) |
| (b) development | - | - |
| (c) production | - | - |
| (d) staff costs | (12) | (301) |
| (e) administration and corporate costs | (80) | (318) |
| 1.3 Dividends received | - | - |
| 1.4 Interest received | 1 | 6 |
| 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 | (950) | (1,775) |

| | | |
|--|---|---|
| 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 (12 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 | 2,082 | 2,082 |
| 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 | (14) | (14) |
| 3.5 | Proceeds from borrowings | - | 1,500 |
| 3.6 | Repayment of borrowings | (60) | (1,400) |
| 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 | 2,008 | 2,168 |

| | | | |
|------------|--|--------------|--------------|
| 4. | Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 | Cash and cash equivalents at beginning of period | 821 | 1,486 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | (950) | (1,775) |
| 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) | 2,008 | 2,168 |
| 4.5 | Effect of movement in exchange rates on cash held | - | - |
| 4.6 | Cash and cash equivalents at end of period | 1,879 | 1,879 |

| 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 | 1,863 | 805 |
| 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) | 1,879 | 821 |

| 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 | (125) |
| 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 | (18) |
| Consultant Fees – Brent Butler | (40) |
| Consultant Fees – Geoffrey Han | (67) |
| 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 | 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 | 3,100 | 3,100 |
| 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 \$100,000 is repayable over the next 5 months in relation to a third loan.

| 9. Estimated cash outflows for next quarter | \$A'000 |
|---|----------------|
| 9.1 Exploration and evaluation | (335) |
| 9.2 Development | |
| 9.3 Production | |
| 9.4 Staff costs | (96) |
| 9.5 Administration and corporate costs | (87) |
| 9.6 Other (provide details if material) – loan repayments | (60) |
| 9.7 Total estimated cash outflows | (578) |

| 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:


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(CEO and Executive Director)Date: **31 July 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.