

QUARTERLY REPORT TO 31 DECEMBER 2019

HIGHLIGHTS

- **Pyrometallurgical Pilot Test Work Completed by GZRINM**
- **Completed a Groundwater Drilling Programme**
- **Studies to support Environmental Review Document continue**

Audalia Resources Limited (ASX: **ACP**) is pleased to present its report for the December 2019 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.

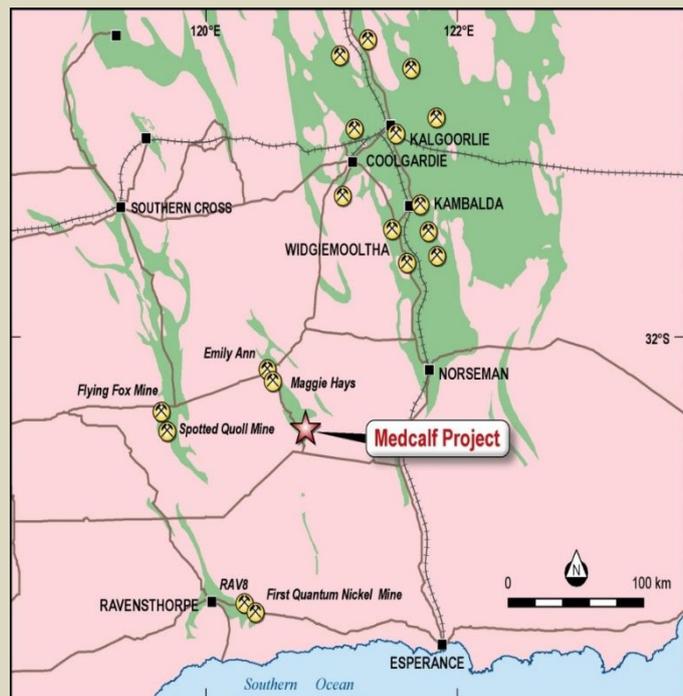


Figure 1: Medcalf Project - Location Map

Environmental Approval

During the quarter, Audalia and its environmental consultants continued to progress the studies required to support the Environmental Review Document (**ERD**) for the Medcalf Project. The Company is planning to submit the ERD to the Environmental Protection Authority in the third quarter of the financial year ending 30 June 2020 (**Q3 FY20**).

Metallurgical Test Work

Guangzhou Research Institute of Non-ferrous Metals (**GZRINM**) undertook an interim metallurgical test work in 2017 and developed a viable metallurgical flowsheet to process the ore from the Medcalf Project (refer ASX announcement dated 26 October 2017). The flowsheet includes two-stage magnetic separation, magnetising roasting, magnetic separation and gravity separation. The flowsheet provides a

feasible technical route for the comprehensive recovery of iron, vanadium and titanium from the Medcalf Project.

During the December 2019 quarter, GZRINM successfully completed the beneficiation pilot test work programme. The beneficiation pilot test work comprised of crushing and milling, low intensity magnetic separation (LIMS), and wet high intensity magnetic separation (WHIMS). The beneficiation pilot test work results exhibited excellent consistency with the bench scale test work results demonstrating the stability and applicability of the beneficiation process flowsheet.

During the December 2019 quarter, GZRINM has completed the flash magnetising roasting pilot test work and an interim report was received. The flash magnetising roasting system can heat up the pulverised concentrate from room temperature to 500°C within seconds and undergoes magnetisation reaction rapidly. It exhibits considerable advantages in comparison to conventional rotary kiln and shaft furnace, including high heat transfer efficiency, fast magnetising roasting rate, high roasting quality and high energy efficiency.

The magnetising roasting pilot test work has identified the optimal operation parameters, including feed rate, roasting temperature, roasting time and reduction medium concentration. The roasting product is consistent with the bench scale test work product for all quality parameters, i.e. Fe, V₂O₅ and TiO₂ concentration, and recovery.

The pilot scale test work is still ongoing with the separation circuit, including magnetic separation and gravity separation. The separation circuit will produce the final products of vanadium contained iron concentrate, and titanium concentrate. It is expected that the separation pilot test work will be completed in Q3 FY20.

Groundwater Drilling

During the December 2019 quarter, Groundwater Resource Management (**GRM**) was contracted to identify drilling targets from recent geophysical surveys for a suitable water supply to be utilised for the water demand of the proposed Medcalf mining Project. The groundwater drilling has been completed and the results of the field investigations indicate that the project water demand can be met by a combination of two fractured rock bores and two palaeochannel bores.

CORPORATE MATTERS

The Company acknowledges its cash position at the end of the quarter, and its estimated cash outflows for the December 2019 quarter. The Directors continue to assess funding alternatives to ensure the Company can continue exploration and evaluation activities at the Medcalf Project.

Authorised by:

Brent Butler
CEO and Executive Director

For more information please contact:

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Schedule of Tenements as at 31 December 2019

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%
	E63/1915	Audalia Resources Limited	Application	0%
	G63/10	Audalia Resources Limited	Application	0%
	G63/11	Audalia Resources Limited	Application	0%
	L63/94	Audalia Resources Limited	Application	0%

Competent Person's Statement

The information in this report that 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 36 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 2019

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	(547)	(862)
(b) development	-	-
(c) production	-	-
(d) staff costs	(21)	(32)
(e) administration and corporate costs	(139)	(209)
1.3 Dividends received	-	-
1.4 Interest received	1	3
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	297	297
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(409)	(803)

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	-	-

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	-	600
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	-	(6)
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	-	594

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	751	551
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(409)	(803)
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)	-	594
4.5 Effect of movement in exchange rates on cash held	-	-
4.6 Cash and cash equivalents at end of period	342	342

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	325	734
5.2 Call deposits	17	17
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)	342	751

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	(61)
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	(9)
Consultant Fees – Brent Butler	(20)
Consultant Fees – Geoffrey Han	(32)
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	3,000	3,000
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 2021. The loan is unsecured. A \$1 million loan attracts a 10% interest rate per annum (compounded daily) and the amount is payable in full (with accrued interest) on 20 November 2021. The loan is unsecured.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	(478)
9.2 Development	-
9.3 Production	-
9.4 Staff costs	(97)
9.5 Administration and corporate costs	(86)
9.6 Other (provide details if material) – loan repayments	-
9.7 Total estimated cash outflows	(661)

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		Not applicable		
10.2 Interests in mining tenements and petroleum tenements acquired or increased	L63/94	Application	0%	0%

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 January 2020**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.