Audalia Resources Limited
ABN 49 146 035 690
Level 1, Office F
1139 Hay Street, West Perth
Western Australia 6005
p: +61 8 9321 0715
f: +61 8 9321 0721

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QUARTERLY REPORT TO 30 SEPTEMBER 2020

HIGHLIGHTS

- **Metallurgical Pilot Scale Testwork results received and published**
- **Environmental Review Document (ERD) submitted to EPA for assessment**

Audalia Resources Limited (ASX: **ACP**) is pleased to present its report for the September 2020 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 km^2.

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.

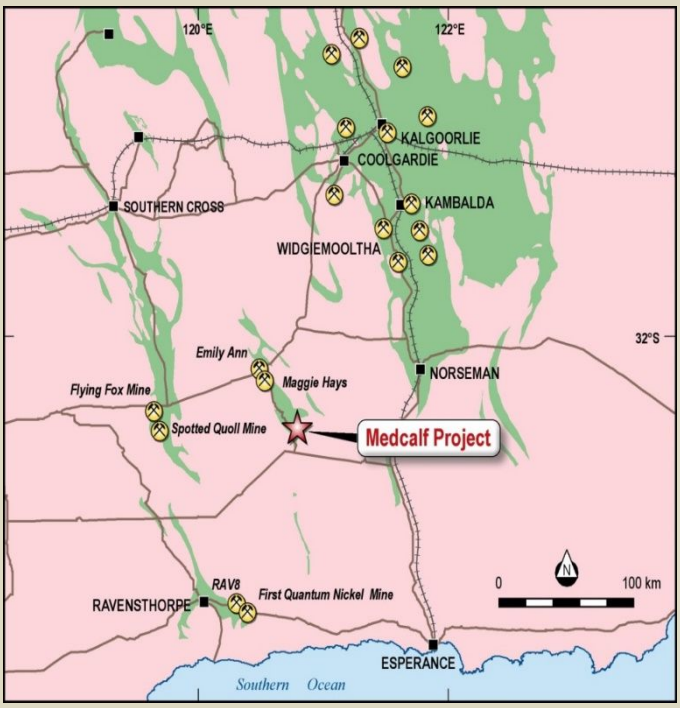


Figure 1: Medcalf Project - Location Map

Environmental Approval

During the quarter, Audalia submitted the Environmental Review Document (**ERD**) for the Medcalf Project to the Environmental Protection Authority (**EPA**) of Western Australia on 14 July 2020.

EPA has subsequently reviewed the ERD document and provided comments on the document. Audalia is currently working with its environmental consultants to address the comments. It is envisaged that the revised ERD document will be submitted to EPA in the second quarter of FY2021.

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Metallurgical Test Work

The Guangzhou Research Institute of Non-ferrous Metals (**GZRINM**) has successfully completed the pilot scale testwork in last quarter. The testwork report was received during this quarter. The detail of the report was published in ASX announcement dated 28 September.

The pilot scale testwork undertaken increases the Company's capabilities in comprehensive recoveries of valuable metals from vanadium titano-magnetite (**VTM**) ore and builds confidence in delivering high metal recoveries when in production. The pilot scale testwork is considered a very important component of the Medcalf Project development by reducing the scalability risk of the process flowsheet, and will support ongoing discussions with potential offtake partners and financiers.

CORPORATE MATTERS

The Company had cash and cash equivalents as at 30 September 2020 of $97,000 (Q4 FY2019/2020: $53,000) following payments for capitalised exploration and evaluation expenditure of $311,000 (Q4 FY2019/2020: $264,000) and payments to related parties and their associates of $114,000 (Q4 FY2019/2020: $26,000) during the September 2020 quarter.

Payments to related parties of the entity

A description of and explanation for payments to related parties and their associates per Section 6.1 of the Appendix 5B following this Quarterly Activities Report is set out in the table below.

Payments to related parties of the entity and their associates	Current quarter $A'000	Previous quarter $A'000
Directors' remuneration		
CEO and Executive Director	13	-
Non-Executive Director	8	-
Total Directors' remuneration	**21**	**-**
Consultancy fees		
CEO and Executive Director[1]	30	11
Non-Executive Director[2]	63	15
Total Consultancy fees	**93**	**26**
Total payments to related parties of the entity and their associates	**114**	**26**

Notes:

1. A company associated with the CEO and Executive Director, Brent Butler, World Technical Services Group Pty Ltd, provides geological consulting services in connection with the operations of the Company. Terms for such services are based on market rates, and amounts are payable on a monthly basis.

2. A company associated with the Non-Executive Director, Xu (Geoffrey) Han, HQ Tech Pty Ltd, provides engineering consulting services in connection with the operations of the Company. Terms for such services are based on market rates, and amounts are payable on a monthly basis.

In September 2020, the Company negotiated access to an additional loan facility of up to $500,000 from a director, Siew Swan Ong, to meet its working capital requirements **(Related Party Loan Facility)**. The Related Party Loan Facility is unsecured, provided on interest free and fee-free terms and has a repayment date of 30 June 2022, which may be extended on the same terms by mutual agreement. Full details of the Related Party Loan Facility are set out in the ASX release dated 28 September 2020.

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

This announcement was authorised to be given to ASX by the Board of Directors of Audalia Resources Limited.

Authorised by:

Brent Butler
CEO and Executive Director

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Schedule of Tenements as at 30 September 2020

Locality	Licence Number	Registered Holder / Applicant	Status	Audalia's Interest
Western Australia				
Lake Johnston	E63/1133	Audalia Resources Limited	Granted	100%
Lake Johnston	E63/1134	Audalia Resources Limited	Granted	100%
Bremer Range/ Lake Medcalf	M63/656	Audalia Resources Limited	Granted	100%
Bremer Range	E63/1855	Audalia Resources Limited	Granted	100%
Bremer Range	L63/75	Audalia Resources Limited	Granted	100%
Bremer Range	E63/1915	Audalia Resources Limited	Application	0%
Lake Johnston	G63/10	Audalia Resources Limited	Application	0%
Lake Johnston	L63/94	Audalia Resources Limited	Application	0%

Interests in Mining Tenements Lapsed, Relinquished or Reduced for the quarter ended 30 September 2020

Nil

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 or oil and gas exploration entity quarterly cash flow report

Name of entity

Audalia Resources Limited

ABN	Quarter ended ("current quarter")
49 146 035 690	30 September 2020

Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
1.	**Cash flows from operating activities**		
1.1	Receipts from customers		
1.2	Payments for		
	(a) exploration & evaluation		
	(b) development		
	(c) production		
	(d) staff costs		
	(e) administration and corporate costs	(42)	(42)
1.3	Dividends received (see note 3)		
1.4	Interest received		
1.5	Interest and other costs of finance paid		
1.6	Income taxes paid		
1.7	Government grants and tax incentives		
1.8	Other (provide details if material)		
1.9	**Net cash from / (used in) operating activities**	**(42)**	**(42)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire or for:		
	(a) entities		
	(b) tenements		
	(c) property, plant and equipment		
	(d) exploration & evaluation	(311)	(311)
	(e) investments		
	(f) other non-current assets		

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Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
2.2	Proceeds from the disposal of:		
	(a) entities		
	(b) tenements		
	(c) property, plant and equipment		
	(d) investments		
	(e) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	**Net cash from / (used in) investing activities**	**(311)**	**(311)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)		
3.2	Proceeds from issue of convertible debt securities		
3.3	Proceeds from exercise of options		
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(3)	(3)
3.5	Proceeds from borrowings	400	400
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**	**397**	**397**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	53	53
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(42)	(42)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(311)	(311)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	397	397

Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
4.5	Effect of movement in exchange rates on cash held		
4.6	**Cash and cash equivalents at end of period**	**97**	**97**

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	80	36
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)**	**97**	**53**

6.	Payments to related parties of the entity and their associates	Current quarter $A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	-
6.2	Aggregate amount of payments to related parties and their associates included in item 2	(114)

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

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7.	**Financing facilities** *Note: the term "facility' includes all forms of financing arrangements available to the entity.* *Add notes as necessary for an understanding of the sources of finance available to the entity.*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
7.1	Loan facilities	4,000	3,500
7.2	Credit standby arrangements		
7.3	Other (please specify)		
7.4	**Total financing facilities**	4,000	3,500

7.5	**Unused financing facilities available at quarter end**	500

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

A $2million loan attract 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 amount is unsecured.

A $1million loan attracts an 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.

The Company has access to a total loan facility of up to $1million from a director, Siew Swan Ong, to meet its working capital requirements **(Related Party Loan Facility)**. The Related Party Loan Facility is unsecured, provided on interest free and fee-free terms and has a repayment date of 30 June 2022, which may be extended on the same terms by mutual agreement. Full details of the Related Party Loan Facility are set out in the ASX release dated 16 June 2020 and 28 September 2020.

8.	**Estimated cash available for future operating activities**	**$A'000**
8.1	Net cash from / (used in) operating activities (item 1.9)	(42)
8.2	(Payments for exploration & evaluation classified as investing activities) (item 2.1(d))	(311)
8.3	Total relevant outgoings (item 8.1 + item 8.2)	(353)
8.4	Cash and cash equivalents at quarter end (item 4.6)	97
8.5	Unused finance facilities available at quarter end (item 7.5)	500
8.6	Total available funding (item 8.4 + item 8.5)	597
8.7	**Estimated quarters of funding available (item 8.6 divided by item 8.3)**	**1.7**

Note: if the entity has reported positive relevant outgoings (ie a net cash inflow) in item 8.3, answer item 8.7 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.7.

8.8 If item 8.7 is less than 2 quarters, please provide answers to the following questions:

8.8.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: Audalia is in the exploration and evaluation phase of its flagship Medcalf Project and as a result, expects to have negative operating cash flows for the time being.

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8.8.2	Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?
Answer:	Audalia manages its cash flow through ongoing budgeting, forecasting and financial reporting processes, using that information to make decisions about the Company's activities and to determine the form and timing of funding for those activities. Audalia has been able to demonstrate a record of securing funds when required (refer to ASX announcements dated 28 September 2020 and 16 June 2020 - Funding Update, 6 March 2020 - Completion of Placement of $360,000, 11 July 2019 – Update on funding and capital raising, 20 June 2018 – Shortfall on entitlement issue and 16 March 2018 – Update on Funding) and is confident that it will be able to continue to do so.
8.8.3	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?
Answer:	The Company expects to continue its operations and to meet its business objectives as it is confident that it will be able to continue to raise funds as and when required. This expectation is based on past experience (as noted above) and because Audalia continues to have the support of its major shareholders and lenders to continue to advance the approvals for the Medcalf Project (refer to ASX announcements dated 28 September 2020 and 16 June 2020 - Funding Update, 29 July 2019 – Update on Loan Facilities and 16 March 2018 – Update on Funding).

Note: where item 8.7 is less than 2 quarters, all of questions 8.8.1, 8.8.2 and 8.8.3 above must be answered.

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.

Date: **30 October 2020**

Authorised by: **The Board of Directors**
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.

2. If this quarterly cash flow 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. If this quarterly cash flow 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.

3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [*name of board committee – eg Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".

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5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

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