MALACHITE RESOURCES LIMITED

A.B.N. 86 075 613 268

CONSOLIDATED FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012

This financial report is for the consolidated entity consisting of Malachite Resources Limited and its subsidiaries. The financial report is presented in Australian currency.

Malachite Resources Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Malachite Resources Limited
Suite 1502, Tower B
799 Pacific Highway
Chatswood NSW 2067.

A description of the nature of the Group's operations and its principal activities is included in the review of operations in the directors' report.

The financial report was authorised for issue by the directors on 27 September 2012. The Company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at a minimum cost to the company. All ASX releases, financial reports and other information are available on our website: www.malachite.com.au.

DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Malachite Resources Limited (referred to hereafter as the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2012.

DIRECTORS

The names and positions of the directors of the consolidated entity during the financial year and up to the date of this report are:

Garry George Lowder, BSc (Hons), PhD, FAusIMM, MAICD (Non-executive from 01/12/11)

Non-Executive Chairman, Age 68

Geologist with over 40 years Australian and international experience in both the public and private sectors. Founded Malachite Resources in 1997, after spending four years as Director General of Mineral Resources in NSW. Previously held senior positions in several Australian and overseas mining companies. Has a strong record of success in mineral exploration, mining, corporate management and government administration, much of it focussed on NSW, with key roles in the discovery of the Northparkes Copper and Cowal Gold deposits. Non-executive chairman of Dome Gold Mines Limited (since 1 March 2012). Former non-executive director of Straits Resources Limited (retired 1 July 2011) and Macmin Silver Limited (resigned 5 November 2008). Graduate of the University of Sydney (BSc Hons), the University of California at Berkeley (PhD) and the Advanced Management Program at the Harvard Business School.

Russell Matthew Devenish Meares, BSc (Hons), MSc, FAusIMM, MAIG, GAICD

Non-Executive Director, Age 65

Geologist with over 40 years experience in mineral exploration and mining. Has worked extensively in both technical and management roles in Australia, Asia and the South West Pacific. Experience ranges from project generation through to ore reserve estimation and economic evaluation. Has played key roles in the discovery of several ore deposits in Australia, Papua New Guinea and Fiji. Was the Group exploration manager from 1997 to 2010. Graduate of University of NSW (BSc Hons) and James Cook University of North Queensland (MSc) and Company Directors' course of Australian Institute of Company Directors.

Roy M. Randall B.Com., LL.B. (resigned 31/12/11)

Non-executive Director, Age 76

Roy Randall is a former partner of the Sydney office of Stikeman, Elliott, Canada's pre-eminent international law firm. Prior to joining Stikeman, Elliott in early 1997 he was a partner at Freehill Hollingdale and Page in Sydney. Roy has more than 35 years broad practical experience in many areas of corporate legal practice and has also worked as a merchant banker. His extensive legal experience has extended to the areas of natural resources, structuring international transactions and infrastructure development. He has represented both issuers and underwriters in connection with initial public offerings for mining companies and advised on takeovers in the mining sector.

James Dean ACIP

Non-executive Director, Age 52

Corporate Advisor and Professional Investor with over 25 years professional experience in the finance industry and investment in mining, construction equipment, property development, feature film and biotech. Most experience has been related to evaluating the operational and financial performance of numerous businesses and then aptly negotiating and matching risk profiles with investment criteria. For more than 20 years he has held fiduciary positions with regard to shareholders and beneficiaries of various investment vehicles. Extensively travelled and possesses a worldwide network of business collaborators. Of particular benefit to the Board of Malachite is his first-hand knowledge of the "Lorena" gold mine and surrounding area gained from being a significant shareholder in that mine since its rebirth in 2009.

Joel Bidois (resigned 11/07/11)

Non-Executive Director

Terry Cuthbertson (appointed 29/03/12)

Non-executive Director, Age 62

Chartered Accountant and holds a Bachelor of Business Degree with extensive corporate finance expertise, having advised several businesses and government organizations in relation to mergers, acquisitions and financing. Formerly a Partner of KPMG Corporate Finance and NSW Partner in Charge of Mergers and Acquisitions, where he coordinated government privatisations, mergers, divestitures and public offerings on the ASX for the New South Wales practice. Terry is the former Group Finance Director of Tech Pacific Holdings Limited, which was one of the largest information technology distributors in Asia with annual turnover in 1999 of approximately $2 billion and is a former Director of Tech Pacific Limited's businesses in Hong Kong, Singapore, India, Philippines, Indonesia and Thailand. Chairman of ASX listed My Net Fone Limited, Montec International Limited, Austpac Resources NL, South American Iron and Steel Corporation Limited , Mint Wireless Limited, OMI Limited and Sun BioMedical Limited. He is also Chairman of s2Net Limited.

Andrew McMillan B Comm (appointed 14/05/12)

Non-executive Director, Age 52

Currently a Director, Corporate Finance at Patersons Securities Limited and has over 25 years corporate advisory experience derived from mergers and acquisitions, equity capital markets and corporate restructuring across industrial and resources sectors. Specialised in equity capital markets transactions at Patersons since March 2003 where he has successfully completed numerous capital raisings.

The directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

In the last three years none of the directors have held directorships in public companies other than those listed individually above.

COMPANY SECRETARY

Andrew J. Cooke LLB, FAICS

Lawyer with over 20 years experience in law, corporate finance and as a Company Secretary of listed resource companies. Responsible for corporate administration together with stock exchange and regulatory compliance.

DIRECTORS' MEETINGS

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member).

		Board of Directors		Audit Committee		Remuneration Committee	
		Held	Attended	Held	Attended	Held	Attended
Dr G Lowder		16	16	3	3	-	-
Mr R Meares		16	16	-	-	2	2
Mr R Randall	(resigned 31/12/11)	7	7	3	2	2	2
Mr J Dean		16	16	6	6	-	-
Mr J Bidois	(resigned 11/07/11)	-	-	-	-	-	-
Mr T Cuthbertson	(appointed 29/03/12)	6	6	-	-	-	-
Mr A McMillan	(appointed 14/05/12)	3	3	-	-	-	-

DIRECTORS' INTERESTS

		Ordinary Shares		Options		Class B Options	
		Direct	Indirect	Direct	Indirect	Direct	Indirect
Dr G Lowder		-	11,581,244	11,000,000	400,000	-	-
Mr R Meares		-	2,140,017	7,000,000	-	-	-
Mr J Dean		-	11,936,508	3,000,000	-	-	1
Mr T Cuthbertson	(appointed 29/03/12)	-	-	-	-	-	-
Mr A McMillan	(appointed 14/05/12)	-	-	-	-	-	-

Full details of options issued are contained in Note 17 and 30.

PRINCIPAL ACTIVITIES

The principal activity of the consolidated entity during the financial year was exploration for economic deposits of gold, silver, copper, tin and other minerals.

No significant changes in the nature of the principal activities occurred during the financial year.

OPERATING RESULTS

The results of the operations of the consolidated entity during the financial year were as follows:	2012 $	2011 $
Loss after income tax	(4,773,282)	(1,722,663)

DIVIDENDS

No dividends have been paid or declared since the start of the financial year. The directors do not recommend the payment of a dividend in respect of the year ended 30 June 2012 (2011: Nil).

REVIEW OF OPERATIONS

Over the past year the Group’s business activities have been focused on advancing the development of its two main projects, the Lorena Gold Project (“Lorena”) near Cloncurry in northwest Queensland and the Conrad Silver Project (“Conrad”) located in northern New South Wales.

At Lorena, the Company completed two exploration drill programs during the year. The results of the first program were used to finalise the resource estimate which was completed by Geos Mining in early 2012. At present, Lorena comprises a measured and indicated resource of 182,600 tonnes at 8.8g/t Au, containing 51,500 ozs of gold, and an inferred resource of 20,600 tonnes at 7.7g/t, containing 5,100 ounces of gold, for a total resource of 56,600 ounces at a 2g/t Au cut-off grade.

A further three diamond drill holes were completed for exploration at Lorena in April 2012 with the primary objective to provide a platform for down-hole electromagnetic (“DHEM”) geophysical surveying. The first of these holes, LMRD0092, intersected 5.3 metres at 12.9g/t Au (including 1.4 metres at 32.9g/t Au) and 0.4 metres at 20.3g/t Au, which appears to be new, high grade gold zone at a depth of approximately 100 metres below the known resource and more than 200 metres vertically below the surface. The gold intersected in hole LMRD0092 greatly increases the known lateral and depth extent of the gold mineralization at Lorena.

REVIEW OF OPERATIONS (CONTINUED)

The DHEM geophysics survey identified two large, strong electromagnetic conductors, suggesting possible depth extensions to the existing known gold lodes. These two DHEM conductors, combined with extensions around the gold intersection in hole LMRD092 will be the priority for the Company's next drilling program at Lorena which is designed to target an increase in the Resource estimate.

Since December 2011, the Company and its consultants have been advancing feasibility work aimed at accelerating Malachite's plans to generate cash flow by commencing gold production at Lorena as soon as possible. Work to date has concentrated on open cut mining studies, geotechnical aspects of an open cut, metallurgical test work to define the best process route, and environmental studies. The results of this pre-feasibility work have been positive.

At Conrad, the Company has had an experienced mining engineering consultancy carrying out scoping study work looking at possible open pit and underground mine designs and mining methods, likely operating costs in each case and the potential cash flows that could be generated from these scenarios. The main conclusion from the study was that the project economics, because it is a high grade narrow vein deposit, are extremely sensitive at current mineral prices to the mining dilution (the amount of waste mined with the ore) and the amount of underground development required to access the mining areas.

Subsequent to the study, the Company executed an option agreement with Mancala Resources Pty Ltd ("Mancala"), an experienced Australian-based mining contractor, with respect to the Conrad Silver Project. Mancala had reviewed the Conrad Project prior to the option agreement and had considered that it could use its proprietary underground vertical miner technology, which can mine at a width of 0.8m, to reduce the dilution and the amount of development that would be sustained, compared to using conventional underground mining methods. This vertical miner has the potential to significantly transform the economics of the Conrad Silver Project.

Pursuant to the option agreement, Mancala has an exclusive six-month period (expiring 30 November 2012) to carry out a more in-depth evaluation of the Conrad Silver Project at Mancala's cost. At the end of the option period, Mancala may elect to carry out a feasibility study, at its own expense (estimated at $5 million), to verify project economics. Upon completion of this feasibility study, Mancala will earn a 50% interest in the Project. Mancala can then earn an additional 10% of the Project by arranging the financing for the Project.

Only relatively minor field activities were carried out at the Group's other projects, in view of the strong focus on Lorena. Each of the Group's interests at Pikedale (base metals/silver) and Tooloom (gold), have been maintained during the year, with a view to additional work in the future. The Company now holds 100% of the Rivertree tenement (silver/base metals) after the joint venture partner withdrew from the joint venture, while the tenement at Tingha has been relinquished and the tenements at Elsmore have been sold.

GOING CONCERN

(b) Significant matters relating to the ongoing viability of operations

During the year, the Group initiated a series of fund raisings to carry out exploration and feasibility work for its Lorena Gold Project and scoping study work for its Conrad Silver Project as follows:

On 29 July 2011 and 29 August 2011 the Group entered into Convertible Note Subscription Agreements to the total value of $1,000,000. The maturity date of the notes is 12 months from the date of the issue date of the respective notes being 5 August 2012 and 1 September 2012. Each of the 10 notes may (at the Note Holder's election) be converted into shares prior to the maturity date or are redeemable in cash upon maturity (with cash payment required to be made within 3 months after the maturity date of the notes). On 25 September 2012 the Group entered into an agreement with the Convertible Note Holders to extend the Convertible Notes for at least a further 7 months from the original maturity dates such that the revised maturity dates are not earlier than 5 March 2013 and 1 April 2013 of the respective notes.

On 26 September 2012 the Group announced that it had raised approximately $1,050,000 through a private placement.

On 26 September 2012 the Group announced that it would proceed with a rights issue which is to be underwritten to raise additional funds of approximately $890,000.

Consistent with the nature of the Group's activities and its ongoing investment of funds into exploration projects the Group has experienced operating losses of $4,773,282 and negative cash flows from operations of $3,149,667 during the year ended 30 June 2012. As at 30 June 2012, the Group also has a working capital deficiency of $391,753.

The Group remains focused on demonstrating the feasibility and exploration potential of its Lorena Gold Project, and with that, the directors of the Group believe that the Group continues to have the ability to raise new capital when appropriate.

The continuing viability of the Group and its ability to continue as a going concern and meet its debts and commitments as and when they fall due are dependent upon the Group being successful in one or more of the following:

- raising appropriate funding through equity,
- entering into potential joint venture arrangements or corporate transaction on its Lorena gold project
- ensuring that the existing convertible notes have been either extended for a longer period, converted into shares, or redeemed via a capital raising or corporate transaction.
- reducing materially, if required, the Group's ongoing operating costs, as it has done from time to time in the past, to suit available financial resources and the timing of anticipated new capital raisings.

The Group will also need to secure sufficient funding through borrowings, equity raising or other arrangements to enable sufficient cash to be available to further its development plans.

As a result of these matters, there is a material uncertainty whether the Group will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

The Group has a successful track record over many years of raising new capital from both existing shareholders and strategic investors. This is demonstrated by the capital raised during this reporting period. On that basis the directors believe that the Group will be successful in the above matters and, accordingly, have prepared the financial report on a going concern basis. At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 30 June 2012. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Significant changes in the state of affairs of the Group during the financial year were as follows:

	2012 $
(a) An increase in contributed equity of $2,925,775 (from $51,087,741 to $54,013,516) as a result of:	
Issue of 2,500,000 Fully paid ordinary shares in accordance with the terms of the convertible notes	-
Rights issue of 139,777,340 Ordinary Fully paid shares at 2.5 cents plus 139,777,340 MARO Options.	3,494,434
Issue of 540,000 Fully paid ordinary shares plus 540,000 MARAW options pursuant to Placement.	40,500
	3,534,934
Less: Transaction costs relating to share issues	(609,159)
Net increase in share capital	2,925,775

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Since the end of the Financial Year the following matters have arisen which may significantly affect the operations of the Group:

1. The Group identified the that the Lady Mary prospect at the Lorena Gold Project was a very promising new, gold-rich, copper-gold find, with some very high gold assays in surface samples;

2. On 3 August 2012 the group received $75,000 on the completion of the sale of the Elsmore tenements to Elsmore Resources Limited.

3. The Group entered into Deeds of Variation and Extension with the holders of Convertible Notes which have a total face value of $1,000,000. The original Notes matured on 5 August 2012 and 6 September 2012 respectively. Subject to certain conditions precedent, the key terms of original Notes have now been varied as follows:

- The maturity date of the Notes is extended by 7 months from the original maturity date;
- The Noteholders have an option to further extend the maturity date by two additional period of 3 months each; and
- Interest payable on the notes has been increased from 12% to 15% per annum for the initial 7 month extension and 18% for each of the additional 3 month terms.

The remaining key terms of the Notes remain unchanged. The Notes have a conversion price which is the lesser of $0.05 or a 20% discount to the 30 day volume weighted average price of the Company’s shares at the time of conversion.

4. On 26 September 2012 the Group announced a Placement of approximately 105,000,000 shares at 1.0 cents raising new working capital of $1,050,000. In conjunction with this placement the Group will undertake a non-renounceable Rights Issue to raise approximately $890,000. Shareholders will be entitled to apply for new shares under the Rights Issue at 1.0 cents on the basis of 1 new share for every 9 shares held and will also receive 1 new option (exercisable at 1.5 cents at any time prior to 31 March 2015) for every two new shares applied for pursuant to the Rights Issue. The Rights Issue is to be underwritten by Patersons Securities Limited.

Except as described above, there has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Group’s projects are at the exploration and evaluation stage only and as such it is not possible to postulate which, if any, will proceed to development and mining operations. The Lorena Gold Project is the most advanced of the consolidated entity's projects, however further studies need to be undertaken before any decision regarding the development of this project can be made. Mancala Resources Pty Ltd has been granted an option to evaluate Conrad Silver Project and has the right to earn a 50% interest in the project by funding and completing a feasibility study within a 2 year period.

ENVIRONMENTAL REGULATIONS

The Group's activities in the mining industry are subject to regulations and approvals including mining heritage, environmental regulation, the implications of the High Court of Australia decisions in what are generally known as the "Mabo" and "Wik" cases and any laws of the Commonwealth or of a State or Territory regarding native and mining titles. Approvals, although granted in most cases, are discretionary. The question of native title has yet to be determined in some parts of the Group's interests and certain mining titles may be affected by native title.

The Group has an environmental rehabilitation policy that is applied to each tenement upon grant. The policy has been adhered to and no breaches have occurred during the period.

SHARE OPTIONS	2012	2011
Options on issue beginning of year	35,815,014	26,760,000
Employee options issued	29,040,000	2,000,000
Employee options lapsed	(4,140,000)	(1,710,000)
Employee options exercised	-	-
Listed options issued	254,747,078	-
Listed options expired	(254,747,078)	-
Listed options exercised	-	-
Unlisted options issued	-	8,765,028
Unlisted options lapsed	-	(14)
Unlisted options exercised	-	-
Options on issue end of year	**60,715,014**	**35,815,014**

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate or in the interest of any other registered scheme.

Further information is given in Note 17 and 30 to the financial statements.

INDEMNIFICATION OF OFFICERS AND AUDITORS

Indemnification

In accordance with the Constitution of Malachite Resources Limited each director and officer is indemnified on a full indemnity basis and to the full extent permitted by law against all losses, liabilities, costs, charges and expenses incurred by them as officers of Malachite Resources Limited or a related body corporate. The consolidated entity has not indemnified or agreed to indemnify the auditor of the consolidated entity against any liabilities incurred as auditor.

Insurance Policies

Since the end of or during the financial year the consolidated entity has paid premiums in respect of directors' and executive officers' liability and legal expenses insurance contracts for the year ended 30 June 2012. Such insurance contracts insure against certain liability (subject to specific exclusions) persons who are or have been directors or executive officers of the parent entity.

Directors have not included details of the nature of the liabilities covered, or the amount of the premium paid, as such disclosure is prohibited under the terms of the insurance contract.

REMUNERATION REPORT

The remuneration report is set out under the following main headings:

(a) Principles used to determine the nature and amount of remuneration
(b) Details of remuneration
(c) Service agreements
(d) Share based compensation
(e) Additional information

The information provided in this remuneration report has been audited as required by section *308(3C)* of the *Corporations Act 2001* .

REMUNERATION REPORT (CONTINUED)

(a) Principles used to determine the nature and amount of remuneration

The Group's policy for determining the nature and amount of emoluments of board members and senior executives of the consolidated entity is as follows:

The objective of the entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency
- capital management.

The Group has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

Alignment to shareholders' interests:

- attracts and retains well qualified and suitably experienced applicants
- has the goal of economic profit as a core component of plan design
- focuses on sustained growth in shareholder wealth, consisting of growth in share price, and, in the longer term, payment of dividends and delivering an adequate return on assets as well as focusing the executive on key non-financial drivers of value.
- attracts and retains high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides a clear structure for earning rewards
- provides recognition for contribution.

The framework provides a mix of fixed and variable pay, and a blend of short (STI) and long-term (LTI) incentives. As executives gain seniority with the Group, the balance of this mix shifts to a higher proportion of "at risk" rewards.

The overall level of executive reward takes into account the performance of the Group over a number of years, with greater emphasis given to the current year. Recognition is given to earnings in setting executive remuneration but, as the Group is involved in mineral exploration rather than mineral mining and production, relevant experience, industry standards and the annual exploration outcomes, rather than earnings, are given greatest weight in remuneration considerations.

Executive remuneration includes a base salary that is set with reference to the market, a short term incentive that comprises of an at risk bonus payable to reflect performance and a long term incentive that provides scope for equity participation over the longer term.

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board has also drawn on external sources of information to ensure non-executive directors' fees and payments are appropriate and in line with the market.

Directors' fees

The current base remuneration was last reviewed with effect from 1 January 2012.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at $300,000 per annum and was approved by shareholders at the AGM on 25 November 2011.

(b) Details of remuneration

Cash remuneration packages are set at levels that are intended to attract and retain executives capable of managing and enhancing the consolidated entity's operations. Remuneration of individual non-executive Directors is determined by the Board and may be varied from time to time but always such that the aggregate (currently $141,333 per annum) is within the maximum amount (currently $300,000 per annum) for which prior approval of the shareholders has been received.

REMUNERATION REPORT (CONTINUED)

Details of the nature and amount of each element of the emoluments of each of the directors and the key management personnel of Malachite Resources Limited during the year ended 30 June 2012 are set out below.

	Short-term Employee Benefits			Post-employment Benefits	Long-term Benefits		Share Based Payments	
	Cash Salary and Fees	Cash Bonus	Non Monetary Benefits	Director's Super-annuation Contributions	Long Service Leave	Termination Benefits	Options*	Total
2012	$	$	$	$	$	$	$	$
Directors								
Dr G Lowder **	107,842	-	-	14,310	51,159	-	35,734	209,045
Mr R Meares	74,625	-	-	6,717	-	-	22,038	103,380
Mr R Randall ***	17,310	-	-	-	-	-	1,015	18,325
Mr J Dean	37,881	-	-	-	-	-	16,050	53,931
Mr J Bidois****	818	-	-	-	-	-	-	818
Mr T Cuthbertson ^	9,603	-	-	-	-	-	-	9,603
Mr A McMillan ^^	4,713	-	-	-	-	-	-	4,713
Other key management personnel								
Mr G Hiller	260,000	25,000	-	25,650	-	-	47,209	357,859
	512,792	**25,000**	**-**	**46,677**	**51,159**	**-**	**122,046**	**757,674**
2011								
Directors								
Dr G Lowder	232,625	-	-	20,936	53,700	-	38,911	346,172
Mr R Meares	109,202	-	-	9,828	-	-	25,940	144,970
Mr D O'Neill	17,500	-	-	1,575	-	-	3,665	22,740
Mr W Staude	17,500	-	-	1,575	-	-	3,665	22,740
Mr R Randall	29,306	-	-	-	-	-	4,342	33,648
Mr J Dean	10,640	-	-	-	-	-	-	10,640
Mr J Bidois	10,640	-	-	-	-	-	-	10,640
Other key management personnel								
Mr G Hiller	69,893	-	-	6,290	-	-	8,381	84,564
	497,306	**-**	**-**	**40,204**	**53,700**	**-**	**84,904**	**676,114**

Key management personnel are the same for the Group and the Company.
There is no link between key management personnel remuneration and the share price or dividends.
All of the top paid executives are shown above.

- * Details of options issued are contained in note 30.
- ** Retired from Executive position 30 November 2011 and took up a Non-Executive position after that date.
- *** Resigned 31/12/11
- **** Appointed 10/02/11-resigned 11/07/11.
- ^ Appointed 29/03/12
- ^^ Appointed 14/05/12

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

		Fixed remuneration		At risk - STI		At risk - LTI	
		2012	2011	2012	2011	2012	2011
Dr G Lowder		83%	89%	-	-	17%	11%
Mr R Meares		79%	82%	-	-	21%	18%
Mr D O'Neill	(resigned 28/02/11)	-	84%	-	-	-	16%
Mr W Staude	(resigned 28/02/11)	-	84%	-	-	-	16%
Mr R Randall		94%	87%	-	-	6%	13%
Mr J Dean		70%	100%	-	-	30%	-
Mr J Bidois	(resigned 11/07/11)	100%	100%	-	-	-	-
Mr T Cuthbertson	(appointed 29/03/12)	100%	-	-	-	-	-
Mr A McMillan	(appointed 14/05/12)	100%	-	-	-	-	-
Mr G Hiller		80%	90%	7%	-	13%	10%

REMUNERATION REPORT (CONTINUED)

(c) Service agreements

Remuneration and other terms of employment for executive directors and CEO are formalised in service agreements. Each of these agreements provide for the provision of performance-related cash bonuses and participation, when eligible, in the Malachite Resources Limited Employee & Contractors Option Plan ("ECOP"). Other major provisions of the agreements relating to remuneration are set out below.

All contracts with executives may be terminated early by either party with 3 months notice, subject to termination payments.

Name	Term of agreement	Base salary including superannuation	Termination benefit
Mr Geoff Hiller -CEO	3 years commencing 21 March 2011	294,300	nil

Directors’ Interests

The relevant interest of each Director (including their associates) in the share capital of the Company as at 30 June 2012 are set out in note 20 to the financial statements.

(d) Share based compensation

Employee Option Plan

The Company operates an Employees and Contractors Option Plan (“Plan”) which was most recently approved by shareholders at the Company's Annual General Meeting held 25 November 2011. The Plan is administered by the Board. Only eligible persons (and their associates) may be invited to participate in the Plan. Eligible persons include full time employees of the Company, permanent part-time employees, qualifying contractors and persons who may be a director, alternate director or company secretary of the Company or an entity in the Group. The Plan is designed to provide long term incentives for executives to deliver shareholder value.

Options are granted under the plan for no consideration. Options granted under the Plan carry no dividend or voting rights. Each option entitles the holder to subscribe for and be allotted one ordinary fully paid share in the capital of the Company. The exercise price is determined by the Directors at the time of issuing an invitation to participate in the Plan.

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

Grant Date	Expiry Date	Exercise Price	Date vested and exercisable	Value per Option at grant date	Performance Achieved	% Vested	% Forfeited
22 Nov 2007	22 Nov 2012	$0.431	based on exploration outcomes	$0.0670	to be determined	na	-
25 Nov 2008	25 Nov 2013	$0.200	1/3 vest 25/11/09	$0.0248	na	33%	-
			1/3 vest 23/11/10		na	33%	-
			1/3 vest 25/11/11		na	34%	-
21 Mar 2011	21 April 2013	$0.100	1,000,000 vest 21/03/2012	$0.0224	na	50%	-
			1,000,000 vest 21/03/2013			-	-
25 Nov 2011	25 May 2015	$0.050	5,500,000 vest 25/11/2012	$0.0061	na	-	-
		$0.075	5,500,000 vest 25/11/2013	$0.0046	na	-	-
5 April 2012	25 May 2015	$0.050	8,750,000 vest 25/11/2012	$0.0056	na	-	-
		$0.075	8,750,000 vest 25/11/2013	$0.0031	na	-	-

All options granted to Directors have been approved by Shareholders.

Benefits are payable (or vest) upon achievement of exploration based performance hurdles or upon expiry of vesting periods.

No options terms and conditions have been altered at any time, except for the price of options granted to Directors pursuant to shareholder approval on the 25th November 2008. These options which were priced at 8.8 cents were subsequently repriced by the Board to 20 cents to better align the interests of Directors with the Company's shareholders.

REMUNERATION REPORT (CONTINUED)

(d) Share based compensation (continued)

Details of options over ordinary shares in the Company provided as remuneration to each Director and officer of Malachite Resources Limited are set out below. When excercisable, each option is convertible into one ordinary share of Malachite Resources Limited. Further information on the options is set out in note 30 to the financial statements.

Directors and Officers	Number of options granted during the year		Number of options vested during the year		Total value of grant yet to vest	
	2012	2011	2012	2011	Minimum	Maximum
					$	$
Dr G Lowder	5,400,000	-	1,020,000	990,000	-	227,885
Mr R Meares	3,000,000	-	680,000	660,000	-	150,140
Mr R Randall	140,000	-	132,000	132,000	-	20,114
Mr J Dean	3,000,000	-	-	-	-	16,050
Mr J Bidois (resigned 11/07/11)	-	-	-	-	-	-
Mr T Cuthbertson (appointed 29/03/12)	-	-	-	-	-	-
Mr A McMillan (appointed 14/05/12)	-	-	-	-	-	-
Mr G Hiller	15,000,000	2,000,000	1,000,000	-	-	109,863

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the previous remuneration tables. The fair value at grant date is determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

During the current or prior year there were no options exercised by the directors under the employee option plan.

The model inputs for options granted during the year ended 30 June 2012 included:

		Directors	CEO
Grant date		25/11/2011	5/04/2012
Exercise price			
	50%	$0.0500	$0.0500
	50%	$0.0750	$0.0750
Fair value at grant date			
	50%	$0.0061	$0.0056
	50%	$0.0046	$0.0031
Share price at grant date		$0.0180	$0.0180
Expiry date		25/05/2015	25/05/2015
Expected volatility		80%	80%
Expected dividend yield		-	-
Risk-free interest rate		3.40%	4%
Probability rate			
	50%	100%	100%
	50%	100%	75%

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

(e) Additional information

The Group's projects are all still at the exploration and evaluation stage and as a result, it does not yet have earnings from mining. In view of that, shareholder wealth is based on the market's view of the value of discoveries made to date, the Group's potential for future discovery success, and the quality and experience of its people. This is reflected in market capitalisation, which is also influenced by factors outside the Group's control, such as commodity prices and general market behaviour.

Accordingly, remuneration policy for key management personnel is based primarily on the extent to which the corporate exploration and evaluation objectives are met, recognising that the timeframe for exploration success commonly exceeds one year. Key performance criteria include measuring actual expenditure against budget, the quality and relevance of geological and other scientific or technical work applied, and the selection, management and performance of field staff and outside contractors, such as drilling contractors. Where a project is sufficiently advanced for it to be appropriate, achievement of resource definition goals is also given considerable emphasis, as the market generally values defined resources more than resource potential. This aspect plays a significant role in setting the long term incentive component of remuneration.

AUDITORS

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below.

Auditor's independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is attached.

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated	
	2012	**2011**
	$	**$**
Assurance services		
Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	58,200	78,496

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001.*

Signed in accordance with a resolution of the directors.

On behalf of the Directors

GG LOWDER
Non-Executive Chairman

Sydney, 27 September 2012

Auditor's Independence Declaration

As lead auditor for the audit of Malachite Resources Limited for the year ended, 30 June 2012, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Malachite Resources Limited and the entities it controlled during the period.

Brett Entwistle
Partner
PricewaterhouseCoopers

27 September 2012

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MALACHITE RESOURCES LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $	2011 $
Revenue from continuing operations	**5**	396,926	50,796
Accounting and audit expense		(87,234)	(59,003)
Corporate expenses		(315,846)	(595,542)
Depreciation and amortisation expense	**6**	(89,834)	(34,755)
Employee benefits expense		(784,987)	(715,722)
Exploration expenditure expensed	**13**	(59,592)	(142,408)
Impairment	**10, 13**	(3,123,812)	-
Finance costs		(584,305)	(100,629)
Occupancy expenses		(122,581)	(121,316)
Other expenses from ordinary activities		(2,017)	(4,084)
Loss before income tax expense		**(4,773,282)**	**(1,722,663)**
Income tax expense	**7**	-	-
Net loss for the year	**19**	**(4,773,282)**	**(1,722,663)**
Other comprehensive income			
Other comprehensive income for the year		-	-
Total comprehensive income for the period		**(4,773,282)**	**(1,722,663)**
Loss for the year is attributable to:			
Owners of the Company		(4,773,282)	(1,722,663)
Total comprehensive income is attributable to:			
Owners of the Company		(4,773,282)	(1,722,663)
Basic and diluted (loss) per share (cents per share)	**29**	(0.72)	(0.54)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

MALACHITE RESOURCES LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSTION
AS AT 30 JUNE 2012

	Note	2012 $	2011 $
CURRENT ASSETS			
Cash and cash equivalents	**8**	358,095	164,478
Trade and other receivables	**9**	107,321	50,615
Assets classified as held for sale	**10**	375,000	-
TOTAL CURRENT ASSETS		840,416	215,093
NON-CURRENT ASSETS			
Receivables	**11**	507,454	476,529
Property, plant and equipment	**12**	783,197	877,822
Exploration and evaluation expenditure	**13**	34,039,886	36,007,831
TOTAL NON-CURRENT ASSETS		35,330,537	37,362,182
TOTAL ASSETS		36,170,953	37,577,275
CURRENT LIABILITIES			
Trade and other payables	**14**	234,918	492,639
Borrowings	**15**	997,251	761,193
TOTAL CURRENT LIABILITIES		1,232,169	1,253,832
NON-CURRENT LIABILITIES			
Borrowings	**15**	58,645	73,451
TOTAL NON-CURRENT LIABILITIES		58,645	73,451
TOTAL LIABILITIES		1,290,814	1,327,283
NET ASSETS		34,880,139	36,249,992
EQUITY			
Contributed equity	**16**	54,013,516	51,087,741
Reserve	**18**	1,803,688	1,326,034
Accumulated losses	**19**	(20,937,065)	(16,163,783)
TOTAL EQUITY		34,880,139	36,249,992

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

MALACHITE RESOURCES LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012

		Attributable to owners of Malachite Resources Limited			
	Note	**Contributed Equity**	**Reserves**	**Accumulated losses**	**Total Equity**
Balance as at 1 July 2010		**27,474,702**	**1,224,313**	**(14,441,120)**	**14,257,895**
Loss for the year		-	-	(1,722,663)	(1,722,663)
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		**27,474,702**	**1,224,313**	**(16,163,783)**	**12,535,232**
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	**16**	23,613,039	-	-	23,613,039
Employee and non-employee share options	**18**	-	101,721	-	101,721
Balance as at 30 June 2011		**51,087,741**	**1,326,034**	**(16,163,783)**	**36,249,992**
Balance as at 1 July 2011		**51,087,741**	**1,326,034**	**(16,163,783)**	**36,249,992**
Loss for the year		-	-	(4,773,282)	(4,773,282)
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		**51,087,741**	**1,326,034**	**(20,937,065)**	**31,476,710**
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	**16**	2,925,775	-	-	2,925,775
Employee and non-employee share options	**18**	-	477,654	-	477,654
Balance as at 30 June 2012		**54,013,516**	**1,803,688**	**(20,937,065)**	**34,880,139**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

MALACHITE RESOURCES LIMITED

CONSOLIDATED STATEMENT CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $	2011 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees (inclusive of GST)		(1,155,560)	(1,212,513)
Exploration and evaluation expenditure (inclusive of GST)		(1,814,287)	(1,988,524)
Interest received	**5**	64,449	26,313
Interest paid		(244,469)	-
Sundry receipts (inclusive of GST)		200	26,931
Net cash outflow from operating activities	**28 (c)**	(3,149,667)	(3,147,793)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(1,726)	(4,831)
Proceeds from sale of investments		2,295	-
Proceeds from sale of assets		4,500	-
Proceeds from sale of prospects		25,000	-
Payments for security deposits		(28,425)	(205,055)
Net cash outflow from investing activities		1,644	(209,886)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from convertible note		1,000,000	-
Convertible notes issue costs		(59,263)	-
Proceeds from loans	**24 (c)**	-	735,500
Repayment of hire purchase loan		(19,310)	(1,574)
Proceeds from share issues		2,799,434	1,000,500
Equity raising expenses	**16 (a), 28 (b)**	(379,221)	(16,687)
Net cash inflow from financing activities		3,341,640	1,717,739
NET INCREASE/(DECREASE) IN CASH HELD		193,617	(1,639,940)
CASH AT THE BEGINNING OF THE FINANCIAL YEAR		164,478	1,804,418
CASH AT THE END OF THE FINANCIAL YEAR	**28 (a)**	358,095	164,478

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Malachite Resources Limited and its subsidiaries.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, and interpretations issued by of the Australian Accounting Standards Board and the *Corporations Act 2001.* Malachite Resources Limited is a for-profit entity for the purposes of preparing the financial statements.

Compliance with IFRS

The consolidated financial statements of the Malachite Resources Limited also comply with *International Financial Reporting Standards* (IFRS), as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

New and amended standards adopted by the Group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2011 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

Early adoption of standards

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2011.

Significant Matters relating to the ongoing viability of operations

During the year, the Group initiated a series of fund raisings to carry out exploration and feasibility work for its Lorena Gold Project and scoping study work for its Conrad Silver Project as follows:

On 29 July 2011 and 29 August 2011 the Group entered into Convertible Note Subscription Agreements to the total value of $1,000,000. The maturity date of the notes is 12 months from the date of the issue date of the respective notes being 5 August 2012 and 1 September 2012. Each of the 10 notes may (at the Note Holder's election) be converted into shares prior to the maturity date or are redeemable in cash upon maturity (with cash payment required to be made within 3 months after the maturity date of the notes). On 25 September 2012 the Group entered into an agreement with the Convertible Note Holders to extend the Convertible Notes for at least a further 7 months from the original maturity dates such that the revised maturity dates are not earlier than 5 March 2013 and 1 April 2013 of the respective notes.

On 26 September 2012 the Group announced that it had raised approximately $1,050,000 through a private placement.

On 26 September 2012 the Group announced that it would proceed with a rights issue which is to be underwritten to raise additional funds of approximately $890,000.

Consistent with the nature of the Group's activities and its ongoing investment of funds into exploration projects the Group has experienced operating losses of $4,773,282 and negative cash flows from operations of $3,149,667 during the year ended 30 June 2012. As at 30 June 2012, the Group also has a working capital deficiency of $391,753.

The Group remains focused on demonstrating the feasibility and exploration potential of its Lorena Gold Project, and with that, the directors of the Group believe that the Group continues to have the ability to raise new capital when appropriate.

The continuing viability of the Group and its ability to continue as a going concern and meet its debts and commitments as and when they fall due are dependent upon the Group being successful in one or more of the following:

- raising appropriate funding through equity,
- entering into potential joint venture arrangements or corporate transaction on its Lorena gold project
- ensuring that the existing convertible notes have been either extended for a longer period, converted into shares, or redeemed via a capital raising or corporate transaction.
- reducing materially, if required, the Group's ongoing operating costs, as it has done from time to time in the past, to suit available financial resources and the timing of anticipated new capital raisings.

The Group will also need to secure sufficient funding through borrowings, equity raising or other arrangements to enable sufficient cash to be available to further its development plans.

As a result of these matters, there is a material uncertainty whether the Group will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant Matters relating to the ongoing viability of operations (continued)

The Group has a successful track record over many years of raising new capital from both existing shareholders and strategic investors. This is demonstrated by the capital raised during this reporting period. On that basis the directors believe that the Group will be successful in the above matters and, accordingly, have prepared the financial report on a going concern basis. At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 30 June 2012. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

(b) Principles of consolidation

(I) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Malachite Resources Limited ("company" or "parent entity") as at 30 June 2012 and the results of all subsidiaries for the year then ended. Malachite Resources Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Malachite Resources Limited.

(c) Cash and cash equivalents

For the purpose of the cash flows statements, cash and cash equivalents includes:

- cash on hand and at call deposits with banks or financial institutions; and
- investments in money market instruments with less than 90 days to maturity that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(d) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and all other short-term employee benefit obligations are presented as other payables.

(ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

(iii) Share based compensation

Share based compensation benefits are provided to employees via the Malachite Resources Limited Employee Option Plan. Information relating to the plan is set out in note 30.

The fair value of options granted under the Malachite Resources Limited Employee Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Exploration and Evaluation Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward where there is current activity and rights of tenure, to the extent that they are expected to be recouped through the successful development of the area, or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves but nevertheless, active and significant operations in the area of interest are continuing.

Accumulated costs in relation to an abandoned area are written off, in full, in the year in which the decision to abandon the area is made or where it fails to meet the conditions outlined above for the carry-forward of these costs as an asset.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

(f) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

(g) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(h) Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period’s taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company’s subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax assets realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Investment allowances

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances). The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

(ii) Tax consolidation legislation

Malachite Resources Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Malachite Resources Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amount, Malachite Resources Limited also recognises the current liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets and liabilities arising under tax funding agreement with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution (or distribution from) wholly-owned tax consolidated entities.

(j) Trade payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(k) Borrowings

Loans are recorded at an amount equal to the net proceeds received. Interest expense is recognised on an accruals basis.

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Loans and borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non‑cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(l) Investments and other financial assets

Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit and loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading which are acquired principally for the purpose of selling in the short term with the intention of making a profit. Assets in this category are classified as current assets if they are expected to be settled within 12 months; otherwise they are classified as non‑current.

(ii) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (notes 9 and 11).

(iii) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designed as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Leases

Leases in which a significant portion of the risks and rewards of ownership are are not transferred to the Group as lessee are classified as operating leases (note 23). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

(n) Loss per share

(i) Basic loss per share

Basic loss per share is calculated by dividing:

• the loss attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares

• by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted loss per share

Diluted loss per share adjusts the figures used in the determination of basic loss per share to take into account:

• the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

• the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(o) Plant and equipment

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on plant and equipment is calculated on a diminishing value basis so as to write off the net cost of each asset over its expected useful life. The following estimated useful lives are used in the calculation of depreciation:

- Motor Vehicles	5 - 6 years
- Plant and equipment	4 - 8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(h)).

(p) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(q) Revenue Recognition

(i) Interest Income

Interest income is recognised on a time proportion basis, taking into account the interest rates applicable to financial assets.

(ii) Other Income

Other income is measured at the fair value of the consideration received or receivable.

(iii) Dividends

Dividends are recognised as revenue when the right to receive payment is established.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

(s) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised while they are classified as held for sale and are presented separately from the other assets in the balance sheet.

(t) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interests in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(u) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

The Company operates predominantly in the one business segment and in one geographical area, namely Australian mineral exploration and evaluation. The Board of Directors review internal management reports on a monthly basis that is consistent with the information provided in the statement of comprehensive income, statement of financial position and statement of cash flows. As a result no reconciliation is required because the information as presented is what is used by the Board to make strategic decisions.

(v) Parent entity financial information

The financial information for the parent entity, Malachite Resources Limited, disclosed in note 31 has been prepared on the same basis as the consolidated financial statements.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The Group's and the parent entity's assessment of the impact of these new standards and interpretation is set out below:

AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective for annual reporting periods beginning on or after 1 January 2013 *)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013* but is available for early adoption. When adopted this standard is not expected to have a material impact on the Group's accounting for financial assets as these only consist in receivable and cash balances.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated as at fair value through profit or loss and the group does not have any such liabilities. The derecognition rules have been transferred from AASB 139 *Financial Instruments: Recognition and Measurement* and have not been changed. The Group has not yet decided when to adopt AASB 9.

* In December 2011, the IASB delayed the application date of IFRS 9 to 1 January 2015. The AASB is expected to make an equivalent amendment to AASB 9 shortly.

AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* (effective 1 July 2013)

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Malachite Resources Limited is listed on the ASX and is therefore not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. As a consequence, the two standards will have no impact on the financial statements of the Group.

AASB 10 *Consolidated Financial Statements,* AASB 11 *Joint Arrangements,* AASB 12 *Disclosure of Interests in Other Entities*, revised AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements,* and Interpretation 12 *Consolidation – Special Purpose Entities.* The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. The Group does not expect the new standard will have a significant impact on its composition.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. As the Group is not party to any joint arrangements, this standard will not have any impact on its financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements, but may impact the type of information disclosed in relation to the Group's investments.

AASB 127 is renamed *Separate Financial Statements* and is now a standard dealing solely with separate financial statements. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. The Group is still assessing the impact of these amendments.

The Group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Group does not use fair value measurements extensively. It is therefore unlikely that the new rules will have a significant impact on any of the amounts recognised in the financial statements. However, application of the new standard may impact the type of information disclosed in the notes to the financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revised AASB 119 *Employee Benefits,* AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)* and AASB 2011-11 Amendments *to AASB 119 (September 2011) arising from Reduced Disclosure Requirements* (effective 1 January 2013)

In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. The amendments will have to be implemented retrospectively. Since Malachite Resources Limited does not have any defined benefit obligations, the amendments will not have any impact on the Group's financial statements. The Group has not yet decided when to adopt the new standard.

AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income* (effective 1 July 2012)

In September 2011, the AASB made an amendment to AASB 101 *Presentation of Financial Statements* which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The Group intends to adopt the new standard from 1 July 2012.

AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013)

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 *Related Party Disclosures* , to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001* . While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The *Corporations Act* requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

AASB 2012-3 *Amendments to Australian Accounting Standard - Offsetting Financial Assets and Financial Liabilities* and AASB 2012-2 *Disclosures - Offsetting Financial Assets and Financial Liabilities* (effective 1 January 2014 and 1 January 2013 respectively)

In June 2012, the AASB approved amendments to the application guidance in AASB 132 *Financial Instruments: Presentation* to clarify some of the requirements for offsetting financial assets and financial liabilities in the balance sheet. These amendments are effective from 1 January 2014. Since Malachite Resources Limited does not have any offsetting arrangements, the amendments will not have any impact on the Group's financial statements. The Group intends to apply the new rules for the first time in the financial year commencing 1 July 2013.

AASB 2012-5 *Amendments to Australian Accounting Standard arising from Annual Improvements 2009-2011 cycle* (effective for annual periods beginning on or after 1 January 2013)

In June 2012, the AASB approved a number of amendments to Australian Accounting Standards as a result of the 2009-2011 annual improvements project. The group will apply the amendments from 1 July 2014. The Group does not expect that any adjustments will be necessary as the result of applying the revised rules.

2 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks; market risk (including foreign exchange risk), credit risk, liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Risk management is carried out by the Board and the financial risks faced by the Group other than liquidity risk are considered minimal at this stage.

Cash is held at one of the big four banks in Australia that is exposed to variable rates. This is managed through holding the cash in a high interest bearing account and is transferred to ordinary account as required.

The Group holds the following financial instruments:

	2012	2011
	$	$
Financial assets		
Cash and cash equivalents	358,095	164,478
Trade and other receivables	552,706	463,165
	910,801	627,643
Financial liabilities		
Trade and other payables	234,918	492,639
Borrowings	1,055,896	834,644
	1,290,814	1,327,283

2 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk

(i) Interest rate risk

The Group's and Parent's main interest rate risk arises from cash and cash equivalents and deposits with banks.

Sensitivity

At 30 June 2012, if interest rates had changed by -/+ 100 base points from the year-end rates with other variables held constant, post-tax loss for the year would have been $17,859 lower /higher (2011: change of 100 bps: $6,087 lower/higher), as a result of lower/higher interest income from cash and cash equivalents and deposits with banks.

(ii) Foreign Exchange Risk

The Group operates domestically and is not exposed to significant foreign exchange risk.

(iii) Price risk

The Group is not exposed to equity securities price risk. The Group is indirectly exposed to commodity price rise to the extent of its operations which are undertaken in the mineral sector.

To manage its price risk arising from investments in equity securities, the Group has minimised its risk exposure and will continue to monitor the materiality in terms of possible impact on the profit and loss.

(b) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks, as well as credit exposures in respect of outstanding receivables and committed transactions.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets.

(c) Liquidity risk

The Group manages liquidity risk by monitoring actual cash flows and maintaining sufficient cash to fund operations. Surplus funds are generally only invested in short term deposits with Australian Banks (refer note 1 (a)).

Maturities of financial liabilities

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Consolidated	Less than 6 Months	6-12 Months	Between 1 and 2 Years	Between 2 and 5 Years	Over 5 Years	Total contractual cash flows	Carrying amount (assets) / liabilities
2012							
Non-derivatives							
Non-interest bearing	234,918	-	-	-	-	234,918	234,918
Fixed rate							
Borrowings (excluding hire purchase)	1,040,000	-	-	-	-	1,040,000	976,062
Hire purchase liabilities	13,277	13,277	62,128	-	-	88,681	79,834
Total Non-derivatives	**1,288,195**	**13,277**	**62,128**	**-**	**-**	**1,363,599**	**1,290,814**
2011							
Non-derivatives							
Non-interest bearing	1,103,139	-	-	-	-	1,103,139	1,103,139
Fixed rate							
Borrowings (excluding hire purchase)	-	129,688	-	-	-	129,688	125,000
Hire purchase liabilities	13,277	13,277	26,552	62,128	-	115,234	99,144
Total Non-derivatives	**1,116,416**	**142,965**	**26,552**	**62,128**	**-**	**1,348,061**	**1,327,283**

2 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments that are not traded in an active market (for example, investments in unlisted subsidiaries) is determined using valuation techniques. The Group does not have financial instruments as at 30 June 2012 which require the use of valuation techniques.

The Group does not have financial assets or liabilities that are measured at fair value at reporting date and hence no further disclosures of fair value measurement by level of fair value hierarchy as required by AASB 7 Financial Instruments: Disclosures has been provided.

(e) Capital risk management

The Group has no long term debt therefore capital is raised as and when it is required to do further exploration activities.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are discussed below.

Exploration and evaluation expenditure

Certain exploration and evaluation expenditure is capitalised where it is considered likely that the expenditure will be recovered by future exploitation or sale, or where activities have not reached a stage which permits a reasonable assessment of the existence of commercially recoverable reserves. This process necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular, whether economically viable extraction operations can be established. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under this policy it is concluded unlikely that the expenditure will be recovered by future exploitation or sale, the relevant amount capitalised is written off to the income statement.

- The Group has executed an option agreement with Mancala Resources Pty Ltd ("Mancala"), an experienced Australian-based mining contractor, with respect to the Conrad Silver Project. Mancala had reviewed the Conrad Project prior to the option agreement and had considered that it could use its proprietary underground vertical miner technology, which can mine at a width of 0.8m, to reduce the dilution and the amount of development that would be sustained, compared to using conventional underground mining methods. This vertical miner has the potential to significantly transform the economics of the Conrad Silver Project.

- Pursuant to the option agreement, Mancala has an exclusive six-month period (expiring 30 November 2012) to carry out a more in-depth evaluation of the Conrad Silver Project at Mancala's cost. At the end of the option period, Mancala may elect to carry out a feasibility study, at its own expense (estimated at $5,000,000), to verify project economics. Upon completion of this feasibility study, Mancala will earn a 50% interest in the Project. Mancala can then earn an additional 10% of the Project by arranging the financing for the Project.

- Once the option is exercised and during the course of the option agreement, the Group will continue to monitor the carrying amount of the Conrad exploration asset amounting to $9,781,000 at 30 June 2012. If the results of the work performed by Mancala are not able to demonstrate the feasibility of the project and its economics merits, an impairment charge may have to be recorded at this point in time.

Carried forward exploration and evaluation expenditures are disclosed in note 13 and relate primarily to capitalisation and evaluation costs from activities in New South Wales and Queensland.

Share-based payment transactions

The Group measures the cost of equity settled transactions with employees and other parties by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using either a Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimate and assumptions relating to equity settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity. Note 30 details the assumptions that have been used in determining the fair value of the options that have been granted during the year.

4 SEGMENT INFORMATION

The economic entity operates in one segment only being mineral exploration and development in Australia.

5 REVENUE

	2012 $	2011 $
From continuing Operations		
Interest	64,449	26,313
Services	182	24,483
Proceeds from disposal of other financial assets at fair value through profit and loss	2,295	-
Gain on remeasurement of embedded derivatives	330,000	-
	396,926	**50,796**

6 EXPENSES

The loss before income tax includes the following expenses:

	2012 $	2011 $
Depreciation of non-current assets:		
- Property, Plant & equipment	60,787	13,352
- Motor vehicles	29,047	21,403
Total Depreciation	**89,834**	**34,755**
Employee entitlements - movement in provisions	(87,149)	(80,771)
Employee share based payments	140,215	101,721
Write off of exploration expenditure	59,592	142,408

7 INCOME TAX

		2012	2011
a)	The prima facie income tax benefit on pre-tax accounting loss reconciles to the income tax amount in the financial statements as follows:		
	Loss from ordinary activities	(4,773,282)	(1,722,663)
	Prima facie income tax benefit calculated at 30% (2011:30%) of taxable loss	(1,431,985)	(516,799)
	Non deductible items	42,065	31,850
	Taxable losses not recognised	1,389,920	484,949
	Income tax expense	-	-
b)	Franking account balance	230	230
c)	Tax losses		
	Unused tax losses for which no deferred tax asset has been recognised.	11,495,518	8,992,081
	Deferred tax liability offset by tax losses of the same amount.	2,071,364	1,345,003

The deferred tax liabilities mainly stem from the immediate deduction of expenditure incurred on exploration and evaluation activities. There is no other material source of deferred tax liabilities at reporting date.

8 CASH AND CASH EQUIVALENTS

	2012 $	2011 $
Cash at bank and on hand	358,095	164,478
	358,095	164,478

9 CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

	2012	2011
Accounts Receivable	73,810	1,210
Other debtors	-	659
Employee advances	1,000	3,799
Rental bonds	1,800	2,540
GST receivables	6,315	16,101
Prepayments	24,396	26,306
	107,321	50,615

(a) Impaired receivables

The creation and release of the provision for impaired receivables is included in 'other expenses' in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of receiving additional cash.

There are no impaired receivables for the Group or Parent and there were no receivables past due for the Group or Parent.

(b) Interest rate risk

Information about the Group's exposure to interest rate risk in relation to receivables is provided in note 2.

(c) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair values.

The maximum exposure to credit risk at the reporting date is their carrying amount of each class of receivables mentioned above. Refer to note 2 for more information on the risk management policy of the Group and the credit quality of the entity's receivables.

10 ASSETS CLASSIFIED AS HELD FOR SALE

	2012 $	2011 $
Carrying value of exploration and evaluation expenditure	1,317,390	-
Initial write-down of the asset to fair value	(942,390)	-
Exploration and evaluation expenditure	375,000	-

On 25 November 2011, Elsmore Resources Limited ("ERL") exercised an option to acquire all of the Group's right title and interest in Exploration License 6196 and in Exploration License 7177. On 2 December 2011 $25,000 was paid to the Group as the first instalment. Completion of the sale will occur on the 5th business day after the date on which ERL receives notice that Ministerial Approval has been given for the sale of the exploration licenses to it. The Group has applied to the NSW department of Industry & Investment for these exploration licences to be transferred to ERL on 15 December 2011. Upon these exploration licenses being transferred to ERL, ERL is required to pay $75,000 to the Group. Under the terms of the sale and purchase agreement, ERL is thereafter required to pay the Group $250,000 upon ERL being granted a mining lease within the tenement area and a further $1,000,000 upon commencement of ore extraction from the tenement area.

At reporting date, the fair value of the consideration was determined to be $375,000. Therefore an impairment loss for initial write-down of the asset to fair value of $942,390 was recognised during the period.

Refer Note 27 for events subsequent to reporting date.

11 NON-CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

	2012 $	2011 $
Tenement security deposits	469,781	438,856
Rental bonds	37,673	37,673
	507,454	476,529

12 PROPERTY, PLANT AND EQUIPMENT

	2012	2011
Plant and equipment		
at cost	437,492	435,766
accumulated depreciation	(197,025)	(136,238)
	240,467	299,528
Property		
at cost	417,036	417,036
accumulated depreciation	-	-
	417,036	417,036
Motor Vehicles		
at cost	218,469	231,187
accumulated depreciation	(92,775)	(69,929)
	125,694	161,258
Total property, plant and equipment	783,197	877,822

Movement in property, plant and equipment	Motor Vehicles $	Property, Plant & Equipment $	Total $
Current Year			
Balance at 01 July 2011	161,258	716,564	877,822
Additions	-	1,726	1,726
Depreciation Expense	(29,047)	(60,787)	(89,834)
Disposals	(6,517)	-	(6,517)
Balance at 30 June 2012	125,694	657,503	783,197
Previous Year			
Balance at 01 July 2010	75,926	516,026	591,952
Additions	126,423	4,831	131,254
Acquisition of subsidiary	-	220,455	220,455
Depreciation Expense	(13,352)	(21,403)	(34,755)
Disposals	(27,739)	(3,345)	(31,084)
Balance at 30 June 2011	161,258	716,564	877,822

13 EXPLORATION AND EVALUATION EXPENDITURE

	Note	2012 $	2011 $
Costs carried forward in respect of areas of interest in exploration and evaluation phases		34,039,886	36,007,831
Movement for year			
Balance at beginning of year		36,007,831	13,201,814
Expenditure during year		1,590,459	1,711,455
Acquisition of subsidiary		-	21,236,970
Transfer to non-current assets held for sale	**10**	(1,317,390)	-
Amounts written off		(59,592)	(142,408)
Impairment		(2,181,422)	-
Balance at end of year		34,039,886	36,007,831

The Group has reviewed its exploration assets for impairment at reporting date in accordance with the accounting policy stated in note 1 (h). As a result of this review and having regards to the current market conditions, the costs carried forward in relation to the Tooloom Gold Project have been impaired by 80%.

14 CURRENT LIABILITIES

	2012 $	2011 $
Trade and other payables		
Trade creditors	66,862	179,149
Other creditors	126,164	184,449
Employee entitlements	41,892	129,041
	234,918	492,639

15 BORROWINGS

		2012	2011
Current			
Unsecured Convertible Note	(a)	976,062	-
Secured loan	(b)	-	125,000
Unsecured Loan	(b)	-	610,500
Hire purchase liabilities		21,189	25,693
Total current borrowings		997,251	761,193
Non Current			
Hire purchase liability		58,645	73,451
Total non current borrowings		58,645	73,451
Total borrowings		1,055,896	834,644

(a) Unsecured convertible note

On 29 July 2011 and 29 August 2011 the Group entered into Convertible Note Subscription Agreements to the total value of $1,000,000.

The maturity date of the notes is 12 months from the date of the issue date of the respective notes being 5 August 2012 and 1 September 2012.

Each of the 10 notes may (at the Note Holder's election) be converted into shares prior to the maturity date (from 6 months after issue) or are redeemable in cash upon maturity (with cash payment required to be made within 3 months after the maturity date of the notes).

The convertible notes will have a conversion price which is the lesser of $0.05 or a 20% discount to the 30 days volume weighted average price of the Company's share at the time of the conversion.

Interest is payable on the notes at a rate of 12% per annum (payable quarterly in arrears on the last day of each quarter).

Under the term of the convertible notes, the notes holders can convert the notes into ordinary shares of the company at their sole election at any time after six month with a conversion price of the lesser of $0.05 or a 20% discount to the 30 days VWAP at the time of conversion.

As a result of this feature, for accounting purpose, the convertible notes were deemed to include two components (1) an option to exchange each convertible note for a variable number of shares at the discretion of the notes holder (which has been recognised as an embedded derivative at inception) and (2) the host debt.

On issue of the convertible notes, the fair value of the convertible derivative was estimated to be $330,000 with the residual value recorded as the host debt. The host debt has subsequently been measured at amortised cost. At 30 June 2012, the convertible derivative has been revalued at $nil which has resulted in a net income on derivatives reflected through profit or loss.

Refer Note 27 for events subsequent to reporting date.

(b) Secured and unsecured loans

These loans were settled by the issued of shares and options during the period. Please refer to note 16 for further details.

16 CONTRIBUTED EQUITY

	2012 $	2011 $
699,426,696 fully paid ordinary shares (2011: 556,609,356)	54,013,516	51,087,741
	54,013,516	51,087,741

Fully paid ordinary shares carry one vote per share and carry the right to dividends and have no par value.

(a) Movement in ordinary share capital

Date	Details	Number of shares	Issue price $	$
1 July 2010	**Opening balance**	**176,196,439**		**27,474,702**
22-Nov-10	Convertible Note interest payable in shares to Nanyang	666,667	0.0750	50,000
20-Dec-10	Share purchase plan	4,575,000	0.0750	343,125
10-Feb-11	Consideration for acquisition of Volga Elderberry Pty Ltd (VEPL)- Shares, Class A and Class B Options *	350,000,000	0.0615	21,529,226
4-Mar-11	Share placement	6,900,000	0.0750	517,500
16-Mar-11	Share placement	1,865,000	0.0750	139,875
17-May-11	Convertible note principal and interest payable in shares to Nanyang	16,406,250	0.0640	1,050,000
	Transaction costs relating to share issues			(16,687)
30 June 2011		**556,609,356**		**51,087,741**
05-Aug-11	Issued 1,250,000 Ordinary shares in accordance with terms of convertible note (i)	1,250,000	0.0000	-
02-Sep-11	Issued 1,250,000 Ordinary shares in accordance with terms of convertible note (i)	1,250,000	0.0000	-
13-Oct-11	Rights issue 139,777,340 Ordinary Fully paid shares at 2.5 cents plus 139,777,340 MARO Options	139,777,340	0.0250	3,494,434
10-Nov-11	Issue of 540,000 Fully paid ordinary shares pursuant to Placement (March placement but had to get shareholder approval)	540,000	0.0750	40,500
	Transaction costs relating to share issues			(609,159)
30 June 2012	**Balance at end of year**	**699,426,696**		**54,013,516**

*** Class A and B Options**

As part of the consideration for the purchase of all of the issued shares in VEPL, the Company has granted 14 Class A Option and 14 Class B Option to the Sellers of VEPL. The purpose of these options is to allow the Sellers a right to avoid dilution that could occur in the future as a result of the issue of shares by the Company to Nanyang pursuant to the terms of a $1 million convertible note held by Nanyang, or due to the exercise of options held by Nanyang.

Class A Options expired on 20 June 2011 and were not exercised.

Class B Options entitle the holder to subscribe for a specified number of shares calculated in accordance with a specific formula which is based on the number of Nanyang shares in the capital of the Company issued to Nanyang or any other person pursuant to the 7,500,000 options issued to Nanyang. The key terms of Class B Options are as follows:

- expire on 30 November 2012;
- exercisable progressively upon the exercise of the Nanyang Options to the extent of such exercise; and
- the exercise price is a price per share equal to the exercise price applicable to the relevant Nanyang Options.

(i) Issue of 2,500,000 Fully paid ordinary shares in accordance with the terms of the convertible notes valued at $107,500 charged to the share based payments reserve.

(b) Capital risk management

The Group's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to maintain an optimal capital structure to reduce the cost of capital. The Group monitors capital on a regular basis in order to achieve the objectives. The Group's strategy has remained unchanged from the prior year.

17 OPTIONS

Expiry Date	Exercise Price	Number on issue 1 July 2011	Granted during year	Transferred during year	Expired during year	Exercised during year	Number on issue 30 June 2012
Listed							
15/06/2012	0.050	-	139,777,339	-	(139,777,339)	-	-
15/06/2012	0.050	-	81,106,739	-	(81,106,739)	-	-
15/06/2012	0.050	-	33,863,000	-	(33,863,000)	-	-
		-	254,747,078	-	(254,747,078)	-	-
Unlisted							
30/11/2011	0.300	240,000	-	-	(240,000)	-	-
30/11/2011	0.300	3,000,000	-	-	(3,000,000)	-	-
22/11/2012	0.431	5,900,000	-	-	-	-	5,900,000
22/11/2012	0.431	1,160,000	-	-	(400,000)	-	760,000
25/11/2013	0.200	5,900,000	-	-	-	-	5,900,000
25/11/2013	0.200	1,350,000	-	-	(500,000)	-	850,000
29/10/2012	0.111	7,500,000	-	-	-	-	7,500,000
30/11/2012	0.111	14	-	-	-	-	14
28/02/2013	0.100	8,765,000	540,000	-	-	-	9,305,000
21/04/2013	0.100	2,000,000	-	-	-	-	2,000,000
25/05/2015	0.050	-	5,500,000	-	-	-	5,500,000
25/05/2015	0.075	-	5,500,000	-	-	-	5,500,000
25/05/2015	0.050	-	8,750,000	-	-	-	8,750,000
25/05/2015	0.075	-	8,750,000	-	-	-	8,750,000
		35,815,014	29,040,000	-	(4,140,000)	-	60,715,014

18 RESERVES

Share based payments reserve

	2012 $	2011 $
Balance at beginning of year	1,326,034	1,224,313
Option Expenses	477,654	101,721
Balance at end of year	1,803,688	1,326,034

The share based payments reserve is used to recognise the fair value of shares and options issued under a share based payments arrangement.

19 ACCUMULATED LOSSES

	2012 $	2011 $
Accumulated losses at beginning of financial year	(16,163,783)	(14,441,120)
Net loss for year	(4,773,282)	(1,722,663)
Accumulated losses at end of financial year	(20,937,065)	(16,163,783)

20 KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors

The directors of Malachite Resources Limited during the year were:

Dr Garry Lowder	- Non-Executive Chairman	(Non-Executive from 01/12/11)
Mr Russell Meares	- Non-Executive Director	
Mr Roy Randall	- Non-Executive Director	(resigned 31/12/11)
Mr James Dean	- Non-Executive Director	
Mr Joel Bidois	- Non-Executive Director	(resigned 11/07/11)
Mr Terry Cuthbertson	- Non-Executive Director	(appointed 29/03/12)
Mr Andrew McMillan	- Non-Executive Director	(appointed 14/05/12)

20 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(b) Other key management personnel

Mr Geoffrey Hiller - Chief Executive Officer

(c) **Key Management Personnel compensation**	2012 $	2011 $
Short-term employee benefits	537,792	497,306
Post-employment benefits	46,677	40,204
Long-term benefits	51,159	53,700
Share-based payments	122,046	84,904
	757,674	676,114

Detailed remuneration disclosures can be found in sections (a) - (c) of the remuneration report.

(d) Loan from Key Management Personnel

Loan from Key Management Personnel refer note 24.

(e) Equity instrument disclosures relating to Key Management Personnel

(i) Share holdings

The number of shares in the Company held during the financial year by each director of Malachite Resources Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

Shares **2012**	**Number held 1 July 2011**	**Purchased during year**	**Sold during year**	**Other changes**	**Number held 30 June 2012**
Directors					
Dr G Lowder	7,181,244	4,400,000	-	-	11,581,244
Mr R Meares	1,140,417	999,600	-	-	2,140,017
Mr R Randall (resigned 31/12/11)	2,481,753	1,148,001	-	(3,629,754)	-
Mr J Dean	7,936,508	4,000,000	-	-	11,936,508
Mr J Bidois (resigned 11/07/11)	82,781,905	-	-	(82,781,905)	-
Mr T Cuthbertson (appointed 29/03/12)	-	-	-	-	-
Mr A McMillan (appointed 14/05/12)	-	-	-	-	-
Other key management personnel					
Mr G Hiller	50,000	5,312,500	-	-	5,362,500

2011	**Number held 1 July 2010**	**Purchased during year**	**Sold during year**	**Other changes**	**Number held 30 June 2011**
Dr G Lowder	6,981,244	200,000	-	-	7,181,244
Mr R Meares	1,040,417	100,000	-	-	1,140,417
Mr D O'Neill (resigned 28/02/11)	-	-	-	-	-
Mr W Staude (resigned 28/02/11)	90,000	-	-	(90,000)	-
Mr R Randall	2,331,753	150,000	-	-	2,481,753
Mr J Dean (appointed 10/02/11)	-	7,936,508	-	-	7,936,508
Mr J Bidois (appointed 10/02/11) (resigned 11/07/11)	-	82,781,905	-	-	82,781,905
Other key management personnel					
Mr G Hiller (appointed 21/03/11)	-	50,000	-	-	50,000

20 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(d) Equity instrument disclosures relating to Key Management Personnel (continued)

(ii) Option holdings

The number of options over ordinary shares in the Company held during the financial year by directors of Malachite Resources Limited and the other key management personnel of the Group, including their personally related parties, are set out below.

Options **2012**	**Number held 1 July 2011**	**Acquired during year**	**Lapsed during year**	**Exercised during year**	**Other changes**	**Number held 30 June 2012**	**Vested and exercisable**
Listed							
Dr G Lowder	-	4,000,000	(4,000,000)	-	-	-	-
Mr R Meares	-	999,600	(999,600)	-	-	-	-
Mr R Randall (resigned 31/12/11)	-	1,008,001	(1,008,001)	-	-	-	-
Mr J Dean	-	4,000,000	(4,000,000)	-	-	-	-
Mr J Bidois (resigned 11/07/11)	-	-	-	-	-	-	-
Mr T Cuthbertson (appointed 29/03/12)	-	-	-	-	-	-	-
Mr A McMillan (appointed 14/05/12)	-	-	-				
Mr G Hiller	-	8,012,500	(8,012,500)	-	-	-	-
Unlisted							
Dr G Lowder	7,250,000	5,400,000	(1,250,000)	-	-	11,400,000	3,260,000
Mr R Meares	5,000,000	3,000,000	(1,000,000)	-	-	7,000,000	2,340,000
Mr R Randall (resigned 31/12/11)	950,000	140,000	(250,000)	-	(840,000)	-	-
Mr J Dean	1	3,000,000	-	-	-	3,000,001	-
Mr J Bidois (resigned 11/07/11)	1	-	-	-	(1)	-	-
Mr T Cuthbertson (appointed 29/03/12)	-	-	-	-	-	-	-
Mr A McMillan (appointed 14/05/12)	-	-	-	-	-	-	-
Mr G Hiller	2,000,000	15,000,000	-	-	-	17,000,000	1,000,000

Options **2011**	**Number held 1 July 2010**	**Acquired during year**	**Lapsed during year**	**Exercised during year**	**Other changes**	**Number held 30 June 2011**	**Vested and exercisable**
Listed							
Dr G Lowder	-	-	-	-	-	-	-
Mr R Meares	-	-	-	-	-	-	-
Mr D O'Neill (resigned 28/02/11)	-	-	-	-	-	-	-
Mr W Staude (resigned 28/02/11)	-	-	-	-	-	-	-
Mr R Randall	-	-	-	-	-	-	-
Mr G Hiller (appointed 21/03/11)	-	-	-	-	-	-	-
Mr J Dean	-	-	-	-	-	-	-
Mr J Bidois (resigned 11/07/11)	-	-	-	-	-	-	-
Unlisted							
Dr G Lowder	7,250,000	-	-	-	-	7,250,000	2,240,000
Mr R Meares	5,000,000	-	-	-	-	5,000,000	1,660,000
Mr D O'Neill (resigned 28/02/11)	800,000	-	-	-	(800,000)	-	-
Mr W Staude (resigned 28/02/11)	800,000	-	-	-	(800,000)	-	-
Mr R Randall	950,000	-	-	-	-	950,000	382,000
Mr G Hiller (appointed 21/03/11)	-	2,000,000	-	-	-	2,000,000	-
Mr J Dean	-	2	(1)	-	-	1	-
Mr J Bidois (resigned 11/07/11)	-	2	(1)	-	-	1	-

21 AUDITORS' REMUNERATION

Remuneration of the auditor of the Group for: Audit services	**2012** **$**	**2011** **$**
Fees paid to PricewaterhouseCoopers Australian firm		
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	58,200	53,462

22 CONTINGENT LIABILITIES

There are no contingent liabilities (2011:nil).

23 COMMITMENTS FOR EXPENDITURE

(a) Capital Expenditure Commitments

There are no capital commitments at the end of the financial year (2011:nil).

(b) Lease Commitments

Operating leases relate to office facilities. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

Operating leases	2012 $	2011 $
Not later than one year	151,380	149,652
Later than 1 year but not later than 5 years	145,310	438,410
Later than 5 years	-	-
	296,690	588,062

(c) Tenement Commitments

Tenement Expenditure required under tenement licence

Not later than one year	198,900	258,000
Later than 1 year but not later than 2 years	208,900	282,000
Later than 2 years	-	-
	407,800	540,000

(d) Hire Purchase Commitments

Not later than one year	26,553	26,553
Later than 1 year but not later than 5 years	62,128	88,681
	88,681	115,234
Future finance charges	(8,847)	(16,090)
Recognised as liability	79,834	99,144

24 RELATED PARTY TRANSACTIONS

(a) Parent entity

The parent entity within the Group is Malachite Resources Limited. Volga Elderberry became a wholly owned subsidiary of Malachite Resources Limited on 10 February 2011.

(b) Key management personnel

Disclosures relating to key management personnel are set out in note 20.

(c) Loans from related parties

Loans from directors and key management personnel	2012 $	2011 $
Unsecured		
Dr G Lowder	-	200,000
Mr R Randall	-	10,500
Mr J Dean	-	100,000
Mr J Bidois (resigned 11/07/11)	-	300,000
Secured		
Mr G Hiller	-	125,000
	-	735,500

The unsecured loans did not bear interest and were repayable in full by 31 December 2011. The secured loan bore interests at a rate of 9% per annum payable on repayment of the principal of the land and was secured by a registered first mortgage over the Jadree property. These loans were settled by the issue of shares and options during the period. Please refer to note 16 for further details.

25 INVESTMENT IN CONTROLLED ENTITY

Name of controlled entity	Country of incorporation	Class of shares	Ownership interest 2012 %	Ownership interest 2011 %
Conrad Silver Mines Pty Ltd (formerly Elsmore Mining Pty Ltd)	Australia	Ordinary	100	100
Volga Elderberry Pty Ltd	Australia	Ordinary	100	100

26 BUSINESS COMBINATION

(a) Summary of acquisition

There were no acquisitions in the year ending 30 June 2012.

Acquisitions in the year ending 30 June 2011.

A Share Purchase Agreement was signed on 29 September 2010. This agreement provided that, at completion, all of the issued shares of Volga Elderberry Pty. Limited, owner of mining lease ML7147, and associated assets, including several tenement applications, and collectively comprising the Lorena Gold Project, would be acquired by the Group. The consideration for this purchase was the issue to the vendors of 350,000,000 fully paid ordinary shares , 14 Class A Options and 14 Class B Options in Malachite Resources Limited. Completion took place on 10 February 2011 and Volga Elderberry became a wholly owned subsidiary of Malachite Resources Limited.

Details of the purchase consideration and net assets acquired are as follows:

	$
Purchase consideration:	
Issue of 350,000,000 shares @6 cents	21,000,000
Issue of 14 Class A Options	255,100
Issue of 14 Class B Options	274,126
Total purchase consideration:	21,529,226

The assets and liabilities recognised as a result of the acquisition are as follows:

Plant and equipment	220,455
Tenement security deposits	71,801
Exploration and evaluation expenditure	21,236,970
Deferred tax asset	249,223
Deferred tax liability	(249,223)
Net assets acquired	21,529,226

Acquisition-related costs

Acquisition-related costs of $164,831 are included in other expenses in profit or loss and in operating cash flows in the statement of cash flows.

27 EVENTS SUBSEQUENT TO REPORTING DATE

Since the end of the Financial Year the following matters have arisen which may significantly affect the operations of the Group:

1. The Group identified the that the Lady Mary prospect at the Lorena Gold Project was a very promising new, gold-rich, copper-gold find, with some very high gold assays in surface samples;

2. On 3 August 2012 the group received $75,000 on the completion of the sale of the Elsmore tenements to Elsmore Resources Limited.

3. The Group entered into Deeds of Variation and Extension with the holders of Convertible Notes which have a total face value of $1,000,000. The original Notes matured on 5 August 2012 and 6 September 2012 respectively. Subject to certain conditions precedent, the key terms of original Notes have now been varied as follows:

- The maturity date of the Notes is extended by 7 months from the original maturity date;
- The Noteholders have an option to further extend the maturity date by two additional period of 3 months each; and
- Interest payable on the notes has been increased from 12% to 15% per annum for the initial 7 month extension and 18% for each of the additional 3 month terms.

The remaining key terms of the Notes remain unchanged. The Notes have a conversion price which is the lesser of $0.05 or a 20% discount to the 30 day volume weighted average price of the Company's shares at the time of conversion.

27 EVENTS SUBSEQUENT TO REPORTING DATE (CONTONUED)

4. On 26 September 2012 the Group announced a Placement of approximately 105,000,000 shares at 1.0 cents raising new working capital of $1,050,000. In conjunction with this placement the Group will undertake a non-renounceable Rights Issue to raise approximately $890,000. Shareholders will be entitled to apply for new shares under the Rights Issue at 1.0 cents on the basis of 1 new share for every 9 shares held and will also receive 1 new option (exercisable at 1.5 cents at any time prior to 31 March 2015) for every two new shares applied for pursuant to the Rights Issue. The Rights Issue is to be underwritten by Patersons Securities Limited.

Except as described above, there has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

28 NOTES TO STATEMENT OF CASH FLOWS

(a) Reconciliation of cash

For the purposes of the statements of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled in the related items in the balance sheet as follows:

	2012 $	2011 $
Cash	358,095	164,478
	358,095	164,478

(b) Non-cash financing and investing activities

	2012	2011
Ordinary shares and options issued for acquisition cost	-	21,529,226
Shares issued to repay Convertible note principal and interest payable in shares to Nanyang	-	1,100,000
Underwritten options	229,938	-
	229,938	22,629,226

(c) Reconciliation of operating profit after income tax to net cash flows from operating activities

	2012	2011
Operating loss after income tax	(4,773,282)	(1,722,663)
Non cash		
Depreciation	89,834	34,755
Employee share-based payments	140,215	101,721
Exploration expenditure written off	59,592	142,408
Impairment	3,123,812	-
Interest on Convertible Notes	-	100,000
Finance fees	437,920	1,295
Net (profit) loss on sale of assets	2,017	4,084
Staff advance reimbursement	2,611	-
Exploration expenditure	2,500	-
Purchase of Lorena asset	-	21,236,970
Gain on remeasurement of embedded derivatives	(330,000)	-
	(1,244,781)	19,898,570
Changes in assets and liabilities		
Decrease/(Increase) in receivables	(58,616)	13,481
Decrease/(Increase) in prepayments	1,910	64
Decrease (Increase) in exploration and evaluation expenditure	(1,590,459)	(22,948,425)
Increase/(decrease) in employee entitlements	(87,149)	(80,771)
Increase/(decrease) in payables	(170,572)	(30,712)
Net cash inflow/(outflow) from operating activities	(3,149,667)	(3,147,793)

29 LOSS PER SHARE

	2012	2011
	$	$
Basic and diluted loss per share (cents per share)	(0.72)	(0.54)
Weighted average number of ordinary shares outstanding during the year used in calculation of basic loss per share	659,179,091	319,043,685

The options outlined in Note 17 are considered potential ordinary shares and should be included in the determination of dilluted earnings per share to the extent to which they are dillutive. The options have not been included in the determination of basic loss per share in 2012 or 2011.

30 SHARE-BASED PAYMENTS

(a) Options issued to Employees and Directors

(i) Employee Option Plan

The Company operates an Employees and Contractors Option Plan (“Plan”) which was most recently approved by shareholders at the Company's Annual General Meeting held 25 November 2011. The Plan is administered by the Board. Only eligible persons (and their associates) may be invited to participate in the Plan. Eligible persons include full time employees of the Company, permanent part-time employees, qualifying contractors and persons who may be a director, alternate director or company secretary of the Company or an entity in the Group. The Plan is designed to provide long term incentives for executives to deliver shareholder value.

Options are granted under the plan for no consideration. Options granted under the Plan carry no dividend or voting rights. Each option entitles the holder to subscribe for and be allotted one ordinary fully paid share in the capital of the Company. The exercise price is determined by the Directors at the time of issuing an invitation to participate in the Plan. Options granted under the Plan have been granted at a premium to the price at which the Company’s shares were traded on the Australian Stock Exchange at the time of granting.

Set out below are summaries of options granted under the plan:

Grant Date	Expiry Date	Exercise Price	Balance at start of year	Granted during the year	Exercised during the year	Expired or forfeited during the year	Balance at end of the year	Exercisable at end of the year
			Number	Number	Number	Number	Number	Number
2012								
31 Jan 2008	22 Nov 2012	0.431	1,160,000	-	-	(400,000)	760,000	-
23 Dec 2008	25 Nov 2013	0.200	1,350,000	-	-	(500,000)	850,000	850,000
21 Mar 2011	21 April 2013	0.100	2,000,000	-	-	-	2,000,000	1,000,000
5 April 2012	25 May 2015	0.050		8,750,000	-	-	8,750,000	-
		0.075		8,750,000	-	-	8,750,000	-
Total			4,510,000	17,500,000	-	(900,000)	21,110,000	1,850,000
Weighted average exercise price			$0.22	$0.06	$0.00	$0.30	$0.08	
2011								
31 Jan 2008	22 Nov 2012	0.431	1,310,000	-	-	(150,000)	1,160,000	-
23 Dec 2008	25 Nov 2013	0.200	1,700,000	-	-	(350,000)	1,350,000	900,000
21 Mar 2011	21 April 2013	0.100	-	2,000,000	-	-	2,000,000	-
Total			3,010,000	2,000,000	-	(500,000)	4,510,000	900,000
Weighted average exercise price			$0.30	$0.10	$0.00	$0.27	$0.22	

30 SHARE-BASED PAYMENTS (CONTINUED)

(ii) Directors Options

Approval was obtained for the issue of the Options to Directors by shareholders at the Company's Annual General Meeting held 25 November 2011.The issue of the Options to the Directors is designed to further align the interests of these parties with those of the Company and its shareholders and is intended to provide incentive for each of them to further enhance the growth and value of the Company.

Options are granted for no consideration. Options granted carry no dividend or voting rights. Each option entitles the holder to subscribe for and be allotted one ordinary fully paid share in the capital of the Company. The exercise price is determined by the Directors at the time of issuing an invitation to participate . Options granted have been granted at a premium to the price at which the Company's shares were traded on the Australian Stock Exchange at the time of granting.

Set out below are summaries of options granted to Directors:

Grant Date	Expiry Date	Exercise Price	Balance at start of year	Granted during the year	Exercised during the year	Expired or forfeited during the year	Balance at end of the year	Exercisable at end of the year
			Number	Number	Number	Number	Number	Number
2012								
23 Nov 2006	30 Nov 2011	0.300	3,240,000	-	-	(3,240,000)	-	-
22 Nov 2007	22 Nov 2012	0.431	5,900,000	-	-	-	5,900,000	-
25 Nov 2008	25 Nov 2013	0.200	5,900,000	-	-	-	5,900,000	5,900,000
25 Nov 2011	25 May 2015	0.050		5,500,000	-	-	5,500,000	-
		0.075		5,500,000	-	-	5,500,000	-
Total			15,040,000	11,000,000	-	(3,240,000)	22,800,000	5,900,000
			$0.31	$0.06	$0.00	$0.30	$0.19	
2011								
23 Nov 2006	30 Nov 2011	0.300	3,450,000	-	-	(210,000)	3,240,000	2,740,000
22 Nov 2007	22 Nov 2012	0.431	5,900,000	-	-	-	5,900,000	-
25 Nov 2008	25 Nov 2013	0.200	5,900,000	-	-	-	5,900,000	3,600,000
Total			15,250,000	-	-	(210,000)	15,040,000	6,340,000
Weighted average exercise price			$0.31	$0.00	$0.00	$0.30	$0.31	

Fair value of options granted

The fair value at grant date is determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The weighted average remaining contractual life of share options outstanding at the end of the period is 2.20 years (2011 – 1.65 years).

30 SHARE-BASED PAYMENTS (CONTINUED)

The model inputs for options granted during the year ended 30 June 2012 included:

		Directors	Non-directors
Grant date		25/11/2011	5/04/2012
Exercise price			
	50%	$0.0500	$0.0500
	50%	$0.0750	$0.0750
Fair value at grant date			
	50%	$0.0061	$0.0056
	50%	$0.0046	$0.0031
Share price at grant date		$0.0180	$0.0180
Expiry date		25/05/2015	25/05/2015
Expected volatility		80%	80%
Expected dividend yield		0%	0%
Risk-free interest rate		3.40%	4%
Probability rate			
	50%	100%	100%
	50%	100%	75%

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

Expenses arising from share-based payment transactions

Total expenses arising from share-based transactions recognised during the period as part of employee benefits expense were as follows:

	2012 $	2011 $
Options issued under the plan and to Directors	140,215	101,721
	140,215	101,721

(c) Shares issued for services under a share based payment arrangement during the year

2012

Issue of fully paid ordinary shares in accordance with the terms of the convertible notes valued at $107,500 charged to the share based payments reserve.

Grant date	Number	Fair value per share cents	Total fair value $
5-Aug-11	1,250,000	4.00	50,000
2-Sep-11	1,250,000	4.60	57,500
Total	**2,500,000**		**107,500**

2011

No shares were issued for services under a share based payment arrangement in 2011.

30 SHARE-BASED PAYMENTS (CONTINUED)

(d) Options issued for services under a share based payment arrangement during the year

2012

Issue of options to underwriters as part consideration pursuant to the Rights Issue Underwriting Agreement valued at $229,939 charged to the share based payments reserve.

Grant date	Number	Fair value per share cents	Total fair value $
14-Oct-11	81,106,739	0.002	162,213
10-Nov-11	33,863,000	0.002	67,726
Total	**114,969,739**		**229,939**

2011

No options were issued for services under a share based payment arrangement in 2011.

31 PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2012 $	2011 $
Balance sheet		
Current assets	840,416	215,093
Non-current assets	35,623,853	37,611,406
Total assets	**36,464,269**	**37,826,499**
Current liabilities	1,232,169	1,253,832
Non-current liabilities	307,869	322,675
Total liabilities	**1,540,038**	**1,576,507**
Net Assets	**34,924,231**	**36,249,992**
Equity		
Contributed equity	54,013,516	51,087,741
Option reserve expense	1,803,688	1,326,034
Accumulated losses	(20,892,973)	(16,163,783)
Total equity	**34,924,231**	**36,249,992**
Profit or loss for the year	**(4,729,190)**	**(1,722,663)**
Total comprehensive income	**(4,729,190)**	**(1,722,663)**

(b) Guarantees entered into by the parent entity

The parent entity did not have any financial guarantees as at 30 June 2012 or 30 June 2011.

(c) Contingent liability of parent entity

The parent entity did not have any contingent liabilities as at 30 June 2012 or 30 June 2011.

MALACHITE RESOURCES LIMITED

DIRECTORS' DECLARATION

In the directors' opinion:

(a) the financial statements and notes are in accordance with the *Corporations Act 2001* , including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements ; and

(ii) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2012 and of their performance, for the financial year ended on that date: and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable ; and

Note 1 (a) confirms that the financial statements also comply with International Financial Reporting standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the CEO and the Company's Accountant (who also carries out the function of Chief Financial Officer) required by section 295A of the *Corporations Act 2001* .

This declaration is made in accordance with a resolution of the directors .

On behalf of the Directors

GG Lowder
Executive Chairman

Sydney, 27 September 2012

Independent auditor's report to the members of Malachite Resources Limited

Report on the financial report

We have audited the accompanying financial report of Malachite Resources Limited (the company), which comprises the statement of financial position as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Malachite Resources Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of Malachite Resources Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Material uncertainty regarding continuation as a going concern

Without qualifying our opinion, we draw attention to Note 1(a) in the financial report which indicates that the consolidated entity has experienced operating losses and negative cash flows during the year ended on 30 June 2012 and, as of that date, the continuing viability of the consolidated entity and its ability to continue as a going concern and meet its debts and commitments as and when they fall due are dependent upon the consolidated entity being successful in raising additional funds. These conditions, along with other matters as set forth in Note 1(a), indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and, therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the remuneration report included in pages 7 to 10 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Malachite Resources Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Brett Entwistle
Partner

Sydney
27 September 2012