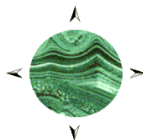


MALACHITE RESOURCES LIMITED

A.B.N. 86 075 613 268



CONSOLIDATED FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

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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 2, Level 10
8-10 Loftus Street
Sydney NSW 2000

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 30 September 2014. The Directors have 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.

MALACHITE RESOURCES LIMITED

**Annual Consolidated Financial Report
For The Financial Year Ended
30 June 2014**

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 2014.

DIRECTORS

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

Terry Cuthbertson (appointed Chairman 26/07/13)
Non-executive Chairman, Age 64

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, Auspac Resources NL, South American Iron and Steel Corporation Limited, Mint Wireless Limited (stepped down as Chairman as of 14 April 2014 remaining as Non-Executive Director), iSentric Limited (formerly OMI Limited) and Sun BioMedical Limited (resigned 19 September 2013). He is also Chairman of s2Net Limited.

James Dean ACIP
Non-executive Director, Age 54

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.

Andrew McMillan B Comm
Non-executive Director, Age 54

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.

Russell Matthew Devenish Meares, BSc (Hons), MSc, FAusIMM, MAIG, GAICD (resigned 31/12/2013)
Non-Executive Director, Age 67

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.

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.

MALACHITE RESOURCES LIMITED

DIRECTORS' REPORT (CONTINUED)

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
Mr T Cuthbertson #	9	7	-	-	-	-
Mr J Dean	10	10	6	5	1	1
Mr A McMillan	10	10	6	6	-	-
Mr R Meares ^	7	7	-	-	1	1

DIRECTORS' INTERESTS

	Ordinary Shares		Options		Class B Options	
	Direct	Indirect	Direct	Indirect	Direct	Indirect
Mr T Cuthbertson	-	5,000,000	-	-	-	-
Mr J Dean	-	11,936,508	3,000,000	-	-	-
Mr A McMillan	1,488,529	-	744,262	-	-	-

Appointed Chairman 26/07/13

^ Resigned 31/12/13

Full details of options issued are contained in Notes 17 and 29.

PRINCIPAL ACTIVITIES

The principal activity of the consolidated entity during the financial year was the development and exploration of mineral deposits.

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:

	2014	2013
	\$	\$
Loss after income tax	(3,181,722)	(9,935,926)

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 2014 (2013: Nil).

REVIEW OF OPERATIONS

The Group's business activities have been primarily focused on advancing the development of the Lorena Gold Project (Lorena) located about 15km east of Cloncurry in northwest Queensland.

LORENA

Lorena Gold Project - MLs 7147, 90192 to 90196 (Malachite Resources Ltd 100% with BCD Resources NL farming in to earn a 50% economic interest)

In July 2013, the Company and BCD Resources NL (BCD) entered into a joint venture agreement (50/50 Joint Venture) to develop Lorena. In order to earn its 50% share of the Lorena project, BCD is required to solely fund the development of the project to the point of commercial production, including construction and commissioning of a flotation facility at Lorena, capable of efficiently processing a minimum of 120,000 tonnes of ore per annum.

The agreement is to transport the bulk gold concentrate produced at Lorena to BCD's processing facility situated at Beaconsfield in Tasmania for final treatment and production of gold doré.

In May 2014, the amended Environmental Authority (EA) for Lorena was granted by the Queensland Department of Environment and Heritage Protection.

The two major components of the Lorena flotation production facility are the flotation building and the ball mill structure. Concrete construction for the foundations of both these structures was completed by the end of June 2014.

It is forecast that commissioning of the Lorena plant will commence in the last quarter of 2014 with first concentrate production from Lorena expected by the end of 2014.

Lorena is expected to produce around 30,000 ozs of recovered gold from an open cut operation.

The Lorena gold project has potential for resource extensions at depth; however this requires confirmation by drilling which is expected to occur as soon as funding allows from the operation.

The Company believes that there are considerable regional opportunities once the plant is operating at Lorena.

MALACHITE RESOURCES LIMITED

DIRECTORS' REPORT (CONTINUED)

REVIEW OF OPERATIONS (CONTINUED)

LORENA (continued)

EPM 18189 and EPM 18908 (100% Malachite)

During the first half of the period, a program of soil geochemical sampling was conducted between the Lady Mary and Copperhead prospects focussing on a linear magnetic high, and on areas with unexplained gold stream sediment anomalies.

The Company is negotiating an access agreement with the landowner of part of EPM18908 in order to carry out exploration drilling on the Lady Mary prospect.

Once the Lorena gold mine is operational it is expected that the Company will be in a position to drill test the Lady Mary and Bloodwood prospects. The prospects on the EPMs are within a short trucking distance of the Lorena gold mine.

OTHER TENEMENTS

Conrad Silver Project (MLs 5992, 6041 & 6042, EL5977 and EPL1050)

There was no progress on the development of the Conrad Silver Project as the Company focused on its Lorena Gold Project. Rehabilitation of drill pad sites at Conrad continued as part of the Company's environmental procedure.

The Group has assessed the current carrying value of the Conrad Silver Project at 31 June 2014 and has recorded an impairment charge of \$1,590,000. It is still the Group's intention to develop the asset in the future; however this is dependent on a silver price which is considerably higher than that observed over the last year.

Tooloom Gold Project (MLs 1237, 1238 & 1385 and EL6263)

Under an agreement dated 5 August 2002 between Tooloom Gold Pty Ltd (Tooloom Gold) and the Company, Tooloom Gold has the right to mine and process alluvial gold on MLs 1237 and 1385.

In December 2013, some rehabilitation work was carried out by Tooloom Gold on ML 1237 and ML 1385 in preparation for the recommencement of alluvial gold mining. The rehabilitation work consisted of clearing weeds and stabilising the site around the existing plant and equipment, which is owned by Tooloom Gold.

Tooloom Gold submitted a Mining Operations Plan (MOP) in May 2014 to the NSW Government Trade and Investment for the mining and processing of alluvial gold on MLs 1237 and 1385. The MOP was approved in July 2014.

Given the current focus on Lorena, the Company is considering a joint venture partner for continued exploration of EL6263.

FINANCIAL PERFORMANCE

During the 2014 financial year the consolidated net loss of \$3.182 million (2013: loss of \$9.936 million) reflected:

- Expenses of \$0.548 million incurred for the development of the Lorena Gold Project and the management of exploration tenements;
- Expenses of \$0.994 million for corporate administration and financing; and
- An impairment charge of \$1.590 million to the carrying value of the Conrad Silver Project.

FINANCIAL POSITION

Total equity decreased from \$26.798 million as at 30 June 2013 to \$24.101 million as at 30 June 2014 as a result of a net loss of \$3.182 million and an increase in contributed equity and reserve of \$0.485 million.

At 30 June 2014, the Group had liabilities in respect of Convertible Notes with a face value of \$1.3 million maturing in July 2014 and an unsecured loan of \$0.05 million.

Subsequent to the 2014 financial year end, the Group successfully negotiated an extension of these Convertible Notes to 5 April 2015 and entered into subscription agreements for new Convertible Notes for a total of \$0.3 million. The \$0.05 million unsecured loan was rolled into one of the new Convertible Notes.

The Group expects to be able to repay the Convertible Notes (if not converted into equity at the holder's election) from cash flow generated from the Lorena Gold Project in 2015.

CASH FLOWS

Cash flows from operating activities was negative \$1.158 million (2013: negative \$2.032 million).

During the period the Group received proceeds from the sale of land property of \$0.295 million and raised \$0.875 million (before costs) via the issue of \$0.3 million of convertible notes, the issue of \$0.525 million in ordinary shares, and \$0.05 million from an unsecured loan.

MALACHITE RESOURCES LIMITED

DIRECTORS' REPORT (CONTINUED)

REVIEW OF OPERATIONS (CONTINUED)

Cash at 30 June 2014 was \$0.166 million (2013: \$0.136 million).

Subsequent to the 2014 financial year end, the Group successfully negotiated an extension of these Convertible Notes to 5 April 2015 and entered into subscription agreements for new Convertible Notes for a total of \$0.3 million. The \$0.05 million unsecured loan was rolled into one of the new Convertible Notes.

GOING CONCERN

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

During the year, the Group initiated a series of fund raisings to primarily provide working capital while the Lorena Gold Project is being developed.

Before deduction of associated costs, the Group raised the following funds during the year:

- on 31 July 2013 the Group raised \$300,000 through the issue of convertible notes;
- on 20 November 2013 the Group raised \$525,000 through a private equity placement;
- on 21 February 2014 the Group raised \$295,000 from the sale of land property; and
- on 26 June 2014 the Group received a \$50,000 loan from a Key Management Personnel.

At 30 June 2014, the Group had liabilities in respect of Convertible Notes with a face value of \$1,300,000 that matured in July 2014.

Post 30 June 2014 the Group successfully negotiated an extension of the existing Convertible Notes to 5 April 2015 and entered into subscription agreements for new Convertible Notes for a total of \$300,000. The \$50,000 unsecured loan (received 26 June 2014) was subsequently rolled into one of these new Convertible Notes.

The Group has entered into an agreement with BCD Resources NL ("BCD") whereby BCD can earn a 50% interest in the Lorena Gold Project by funding all the costs to develop the project through to initial production. The Lorena Gold Project is currently being constructed by BCD and is expected to be completed by the last quarter of 2014.

In the financial statements of BCD for the year ended 30 June 2014 (issued on 27 August 2014), it is noted that BCD's going concern position is dependent on BCD's ability to complete the construction and initial development of the Lorena Gold Project which in turn, is subject to them accessing a project financing facility which has been approved in principle by BCD's lenders. Upon the commencement of commercial production, significant cash flows from the Lorena Gold Project is expected to be delivered to the Group in 2015, after project working capital balances have been paid down.

Consistent with the nature of the Group's activities and its ongoing investment of funds into exploration and development projects the Group has experienced operating losses of \$3,181,722 and negative cash flows from operations of \$1,158,041 during the year ended 30 June 2014. At 30 June 2014, the Group has net current liabilities amounting to \$1,796,708 (2013: \$1,237,272). The Group's cash position at balance date was \$166,113 which will not be sufficient to fund both the cash redemption of the Convertible Notes (if that is required) and the Group's forecast cash outflows from operations for the twelve month period to September 2015. As outlined above, the cost of developing the Lorena Gold Project is being funded by BCD, however should the Group wish to undertake any further exploration activity this will only be possible as and when sufficient funds are available to the Group.

As a result of these matters, there is a material uncertainty related to events or conditions that may cast significant doubt on 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 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:

- achieving positive cash flows from the Lorena Gold Project in 2015 through BCD's successful development of the project to commercial production;
- raising appropriate funding through equity or debt;
- extending (if necessary) for a short period of time the repayment of the Convertible Notes to suit available resources and the timing of the cash flows from the Lorena Gold Project or alternatively, converting the Convertible Notes into shares or redeeming them via a capital raising;
- selling some non-core assets in the short-term;
- entering into a corporate transaction; or
- making further reductions to its ongoing operating cost base.

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 financial year. The Group has also been successful in extending the term of the Convertible Notes and raising additional Convertible Notes. The Group is also confident that it will be able to generate cash inflows from its Lorena Gold Project in 2015. On that basis the directors believe it is reasonable to expect 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 2014. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

The attached financial report for the year ended 30 June 2014 contains an independent auditor's report which includes an emphasis of matter paragraph in regard to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

MALACHITE RESOURCES LIMITED

DIRECTORS' REPORT (CONTINUED)

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

	2014
	\$
(a) An increase in contributed equity of \$478,162 (from \$55,573,227 to \$56,051,389) as a result of:	
Share placement issue of 105,000,000 shares @\$0.005 per share	525,000
	<hr/>
	525,000
Less: Transaction costs relating to share issues	(46,838)
	<hr/>
Net increase in share capital	<u>478,162</u>

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

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

The Group successfully negotiated an extension and variation of the existing Convertible Notes with a face value of \$1.3 million. The revised key terms of the Convertible Notes are as follows:

- Maturity Date of 5 April 2015;
- Interest Rate of 15% per annum;
- Conversion – at the election of Noteholders at any time;
- Conversion Price – the lesser of \$0.015 or 20% discount to the 30 Day VWAP at the time of conversion; and
- Rollover fee – 1.75% of the issue price to be satisfied by the issue of Ordinary Shares at a 20% discount to the 30 VWAP to 5 July 2014.

The Group entered into subscription agreements for new Convertible Notes which have a total face value of \$0.3 million. The terms of the new Convertible Notes are identical to the existing Convertible Notes as summarised above except that no Rollover Fee is payable. Key Management Personnel of the Group subscribed for \$0.125 million of new Convertible Notes.

The \$0.05 million unsecured loan was rolled into one new Convertible Note.

Shareholder approval will be sought at the Company's Annual General Meeting in November 2014 to approve the conversion of these Notes into fully paid ordinary shares should Noteholders elect to exercise their conversion rights.

In addition, Mr. Andrew McMillan, who is a Director of the Company, has subscribed for one of the new Convertible notes subject to specific shareholder approval which will also be sought at the upcoming Annual General Meeting. The \$50,000 received from Mr McMillan will be treated as a loan until his Convertible Note has been approved by shareholders.

Subject to shareholder approval the total face value of Convertible Notes on issue will then be \$1,600,000.

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 main project is the Lorena Gold Project (Lorena). The Group has entered into a joint venture arrangement with BCD Resources NL (BCD), whereby BCD has the right to earn a 50% interest in the project by funding the development of the project. BCD is currently developing Lorena.

Lorena is expected to be developed by the last quarter of 2014 and the Group expects to generate cash flows from Lorena via an open cut mining operation in 2015. Further cash flows from the project will depend on either establishing an underground operation at Lorena, which is contingent on the discovery of additional resources at depth, or by treating third party ores.

The other projects held by the Group 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.

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 does not believe the Lorena Gold Project mining leases are 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.

MALACHITE RESOURCES LIMITED

DIRECTORS' REPORT (CONTINUED)

SHARE OPTIONS

	<u>2014</u>	<u>2013</u>
Options on issue beginning of year	176,416,504	60,715,014
Employee options issued	-	-
Employee options lapsed	(3,100,000)	(9,310,000)
Employee options exercised	-	-
Listed options issued	-	141,828,192
Listed options expired	-	-
Listed options exercised	-	(11,688)
Unlisted options issued	-	-
Unlisted options lapsed	-	(16,805,014)
Unlisted options exercised	-	-
Options on issue end of year	<u>173,316,504</u>	<u>176,416,504</u>

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 29 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 2014. 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.

PROCEEDINGS ON BEHALF OF THE COMPANY

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001*.

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*.

(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.

MALACHITE RESOURCES LIMITED

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (CONTINUED)

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

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 2014.

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 21 November 2013.

(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 \$161,106 per annum see table below) is within the maximum amount (currently \$300,000 per annum) for which prior approval of the shareholders has been received.

Remuneration non-executive Directors fees

Remuneration fees received in their capacity as non-executive Directors.

2014

Directors	Directors fees
Mr T Cuthbertson #	60,962
Mr J Dean	39,330
Mr A McMillan	39,330
Mr R Meares ^^	21,484
	<u>161,106</u>

Appointed Chairman 26/07/13

^^ Resigned 31/12/13

MALACHITE RESOURCES LIMITED

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (CONTINUED)

(b) Details of remuneration (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 2014 are set out below.

	Short-term Employee Benefits				Post-employment Benefits	Long-term Benefits		Share Based Payments	Total
	Cash Salary and Fees		Cash Bonus	Non Monetary Benefits	Super-annuation Contributions	Long Service Leave	Termination Benefits	Options	
	Paid	Accrued							
2014	\$	\$	\$	\$	\$	\$	\$	\$	\$
Directors									
Mr T Cuthbertson #	-	60,962	-	-	-	-	-	-	60,962
Mr J Dean	-	39,330	-	-	-	-	-	-	39,330
Mr A McMillan	-	39,330	-	-	-	-	-	-	39,330
Mr R Meares ^^	19,665	-	-	-	1,819	-	-	-	21,484
Other key management personnel of the group									
Mr G Hiller	213,300	36,205	-	-	-	-	-	5,766	255,271
	232,965	175,827	-	-	1,819	-	-	5,766	416,377
2013									
Directors									
Mr T Cuthbertson #	40,110	-	-	-	-	-	-	-	40,110
Mr J Dean	60,690	-	-	-	-	-	-	-	60,690
Mr A McMillan	39,600	-	-	-	-	-	-	-	39,600
Mr R Meares ^^	74,663	-	-	-	6,720	-	-	2,827	84,210
Dr G Lowder **	24,591	-	-	-	2,213	-	-	4,242	31,046
Other key management personnel of the group									
Mr G Hiller	228,923	36,695	59,000	-	942	-	-	48,507	374,067
	468,577	36,695	59,000	-	9,875	-	-	55,576	629,723

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.

There is no relationship between the performance of the Group and remuneration over the past five years.

All of the top paid executives are shown above.

Appointed Chairman 26/07/13

^^ Resigned 31/12/13

** Resigned 30/11/12

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	
	2014	2013	2014	2013	2014	2013
Directors						
Mr T Cuthbertson #	100%	100%	-	-	-	-
Mr J Dean	100%	100%	-	-	-	-
Mr A McMillan	100%	100%	-	-	-	-
Mr R Meares ^^	100%	97%	-	-	-	3%
Dr G Lowder **	0%	86%	-	-	-	14%
Other key management personnel of the group						
Mr G Hiller	98%	71%	-	16%	2%	13%

Appointed Chairman 26/07/13

^^ Resigned 31/12/13

** Resigned 30/11/12

MALACHITE RESOURCES LIMITED

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (CONTINUED)

(c) Service agreements

Remuneration for the CEO is formalised in a consultancy agreements. This agreement provides for the provision of performance-related cash bonuses for key achievements in cost management and funding raising 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.

Name	Term of agreement	Base rate
Mr Geoff Hiller -CEO	1 year commencing 1 July 2013	\$1,350 per day

A new contract for Mr Geoff Hiller currently being negotiated.

(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 21 November 2013. 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 for KMP's are as follows:

Grant Date	Expiry Date	Exercise Price	Date vested and exercisable	Value per Option at grant date	Performance Achieved	% Vested	% Forfeited
25 Nov 2011	25 May 2015	\$0.050	5,500,000 vest 25/11/2012	\$0.0061	na	100%	-
		\$0.075	5,500,000 vest 25/11/2013	\$0.0046	na	100%	-
5 April 2012	25 May 2015	\$0.050	7,500,000 vest 25/11/2012	\$0.0056	na	100%	-
		\$0.075	7,500,000 vest 25/11/2013	\$0.0031	na	100%	-

All options granted to Directors have been approved by Shareholders.

Benefits are payable (or vest) 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.

MALACHITE RESOURCES LIMITED

DIRECTORS' REPORT (CONTINUED)

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 exercisable, each option is convertible into one ordinary share of Malachite Resources Limited. Further information on the options is set out in note 29 to the financial statements.

Directors and Officers	Number of options granted during the year		Number of options vested during the year		Number of options lapsed or forfeited during the year		Total value of grant yet to vest	
	2014	2013	2014	2013	2014	2013	Minimum	Maximum
							\$	\$
Directors								
Mr T Cuthbertson #	-	-	-	-	-	-	-	-
Mr J Dean	-	-	1,500,000	1,500,000	-	-	-	-
Mr A McMillan	-	-	-	-	-	-	-	-
Mr R Meares ^^	-	-	1,500,000	1,500,000	2,000,000	2,000,000	-	-
Dr G Lowder **	-	-	-	2,500,000	-	3,000,000	-	-
Other key management personnel of the group								
Mr G Hiller	-	-	7,500,000	8,500,000	-	2,000,000	-	-

Appointed Chairman 26/07/13

^^ Resigned 31/12/13

** Resigned 30/11/12

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.

During the year ended 30 June 2014 no options were granted to directors.

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.

(f) Other transactions of Key Management Personnel

On 26 June 2014 the Group received a \$50,000 unsecured loan, from a Key Management Personnel, with an interest rate of 12% per annum. The loan was subsequently rolled into a new Convertible Note after the reporting period.

(g) Equity instrument disclosures relating to Directors and 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	Number held	Purchased during	Sold during	Other changes	Number held
2014	1 July 2013	year	year		30 June 2014
Directors					
Mr T Cuthbertson (appointed Chairman 26/07/13)	-	5,000,000	-	-	5,000,000
Mr J Dean	11,936,508	-	-	-	11,936,508
Mr A McMillan	1,488,529	-	-	-	1,488,529
Mr R Meares (resigned 31/12/13)	2,377,797	-	-	(2,377,797)	-
Other key management personnel					
Mr G Hiller	5,645,834	-	-	-	5,645,834

MALACHITE RESOURCES LIMITED

DIRECTORS' REPORT (CONTINUED)

(g) Equity instrument disclosures relating to Directors and 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	Number held 1 July 2013	Acquired during year	Lapsed during year	Exercised during year	Other changes	Number held 30 June 2014	Vested and exercisable
Listed							
Directors							
Mr A McMillan	744,262	-	-	-	-	744,262	-
Mr R Meares (resigned 31/12/13)	118,890	-	-	-	(118,890)	-	-
Other key management personnel							
Mr G Hiller	166,667	-	-	-	-	166,667	-
Unlisted							
Directors							
Mr J Dean	3,000,000	-	-	-	-	3,000,000	3,000,000
Mr R Meares (resigned 31/12/13)	5,000,000	-	(2,000,000)	-	(3,000,000)	-	-
Other key management personnel							
Mr G Hiller	15,000,000	-	-	-	-	15,000,000	15,000,000

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.

No amounts paid or payable to the auditor (PricewaterhouseCoopers) for non-audit services provided during the year.

Auditor's independence declaration

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

Signed in accordance with a resolution of the directors.

On behalf of the Directors



Terry Cuthbertson
Non-Executive Chairman

Sydney, 30 September 2014



Auditor's Independence Declaration

As lead auditor for the audit of Malachite Resources Limited for the year ended 30 June 2014, 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.

A handwritten signature in blue ink, appearing to read 'Brett Entwistle', is written over a faint, illegible stamp.

Brett Entwistle
Partner
PricewaterhouseCoopers

Sydney
30 September 2014

MALACHITE RESOURCES LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 \$	2013 \$
Revenue from continuing operations	5	155,180	126,861
Accounting and audit expense		(71,386)	(73,681)
Corporate expenses		(267,058)	(443,688)
Depreciation and amortisation expense	6	(52,606)	(70,764)
Employee benefits expense		(268,694)	(412,686)
Exploration expenditure expensed		(548,037)	(633,856)
Impairment of exploration assets and other receivables	10, 13	(1,640,000)	(7,954,087)
Impairment of property	12	-	(57,036)
Finance costs	6	(341,757)	(328,643)
Occupancy expenses		(72,381)	(84,753)
Gain/(loss) on sale of assets		(74,983)	(3,593)
Loss before income tax expense		(3,181,722)	(9,935,926)
Income tax expense	7	-	-
Net loss for the year	19	(3,181,722)	(9,935,926)
Other comprehensive income			
Other comprehensive income for the year		-	-
Total comprehensive loss for the year		(3,181,722)	(9,935,926)
Loss for the year is attributable to:			
Owners of the Company		(3,181,722)	(9,935,926)
Total comprehensive loss is attributable to:			
Owners of the Company		(3,181,722)	(9,935,926)
Basic and diluted (loss) per share (cents per share)	28	(0.33)	(1.19)

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

MALACHITE RESOURCES LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

	Note	2014 \$	2013 \$
CURRENT ASSETS			
Cash and cash equivalents	8	166,113	135,685
Trade and other receivables	9	38,323	41,780
Other receivables	10	25,000	75,000
TOTAL CURRENT ASSETS		<u>229,436</u>	<u>252,465</u>
NON-CURRENT ASSETS			
Receivables	11	445,281	507,454
Property, plant and equipment	12	196,470	639,060
Exploration and evaluation expenditure	13	25,046,191	26,636,191
TOTAL NON-CURRENT ASSETS		<u>25,687,942</u>	<u>27,782,705</u>
TOTAL ASSETS		<u>25,917,378</u>	<u>28,035,170</u>
CURRENT LIABILITIES			
Trade and other payables	14	427,034	178,627
Borrowings	15	1,369,674	1,058,645
TOTAL CURRENT LIABILITIES		<u>1,796,708</u>	<u>1,237,272</u>
NON-CURRENT LIABILITIES			
Borrowings	15	19,605	-
TOTAL NON-CURRENT LIABILITIES		<u>19,605</u>	<u>-</u>
TOTAL LIABILITIES		<u>1,816,313</u>	<u>1,237,272</u>
NET ASSETS		<u>24,101,065</u>	<u>26,797,898</u>
EQUITY			
Contributed equity	16	56,051,389	55,573,227
Reserve	18	2,104,389	2,097,662
Accumulated losses	19	(34,054,713)	(30,872,991)
TOTAL EQUITY		<u>24,101,065</u>	<u>26,797,898</u>

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 2014

	Note	Attributable to owners of Malachite Resources Limited			Total Equity
		Contributed Equity	Reserves	Accumulated losses	
Balance as at 1 July 2012		54,013,516	1,803,688	(20,937,065)	34,880,139
Loss for the year		-	-	(9,935,926)	(9,935,926)
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		54,013,516	1,803,688	(30,872,991)	24,944,213
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	16	1,559,711	-	-	1,559,711
Employee and non-employee share options	18	-	293,974	-	293,974
Balance as at 30 June 2013		55,573,227	2,097,662	(30,872,991)	26,797,898
Balance as at 1 July 2013		55,573,227	2,097,662	(30,872,991)	26,797,898
Loss for the year		-	-	(3,181,722)	(3,181,722)
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		55,573,227	2,097,662	(34,054,713)	23,616,176
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	16	478,162	-	-	478,162
Employee and non-employee share options	18	-	6,727	-	6,727
Balance as at 30 June 2014		56,051,389	2,104,389	(34,054,713)	24,101,065

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 2014

	Note	2014 \$	2013 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees (inclusive of GST)		(438,824)	(810,602)
Exploration and evaluation expenditure (inclusive of GST)		(602,841)	(1,098,538)
Interest received	5	7,469	24,997
Interest paid		(165,564)	(148,061)
Sundry receipts (inclusive of GST)		41,719	-
Net cash outflow from operating activities	27 (c)	<u>(1,158,041)</u>	<u>(2,032,204)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		-	(2,502)
Proceeds from sale of assets		317,000	24,500
Proceeds from sale of prospects		-	75,000
Refund of security deposits		90,173	-
Net cash outflow from investing activities		<u>407,173</u>	<u>96,998</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from convertible note		300,000	-
Convertible notes issue costs		(27,500)	-
Proceeds from unsecured loan		50,000	-
Repayment of hire purchase loan		(19,366)	(21,189)
Proceeds from share issues		525,000	1,943,027
Equity raising expenses	16 (a)	<u>(46,838)</u>	<u>(209,042)</u>
Net cash inflow from financing activities		<u>781,296</u>	<u>1,712,796</u>
NET INCREASE/(DECREASE) IN CASH HELD		30,428	(222,410)
CASH AT THE BEGINNING OF THE FINANCIAL YEAR		<u>135,685</u>	<u>358,095</u>
CASH AT THE END OF THE FINANCIAL YEAR	27 (a)	<u>166,113</u>	<u>135,685</u>

For details of non-cash operating and investing activities by the Group refer to note 27.

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

MALACHITE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

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 2013 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 2013.

Significant Matters relating to the ongoing viability of operations

During the year, the Group initiated a series of fund raisings to primarily provide working capital while the Lorena Gold Project is being developed.

Before deduction of associated costs, the Group raised the following funds during the year:

- on 31 July 2013 the Group raised \$300,000 through the issue of convertible notes;
- on 20 November 2013 the Group raised \$525,000 through a private equity placement;
- on 21 February 2014 the Group raised \$295,000 from the sale of land property; and
- on 26 June 2014 the Group received a \$50,000 loan from a Key Management Personnel.

At 30 June 2014, the Group had liabilities in respect of Convertible Notes with a face value of \$1,300,000 that matured in July 2014.

Post 30 June 2014 the Group successfully negotiated an extension of the existing Convertible Notes to 5 April 2015 and entered into subscription agreements for new Convertible Notes for a total of \$300,000. The \$50,000 unsecured loan (received 26 June 2014) was subsequently rolled into one of these new Convertible Notes.

The Group has entered into an agreement with BCD Resources NL ("BCD") whereby BCD can earn a 50% interest in the Lorena Gold Project by funding all the costs to develop the project through to initial production. The Lorena Gold Project is currently being constructed by BCD and is expected to be completed by the last quarter of 2014.

In the financial statements of BCD for the year ended 30 June 2014 (issued on 27 August 2014), it is noted that BCD's going concern position is dependent on BCD's ability to complete the construction and initial development of the Lorena Gold Project which in turn, is subject to them accessing a project financing facility which has been approved in principle by BCD's lenders. Upon the commencement of commercial production, significant cash flows from the Lorena Gold Project is expected to be delivered to the Group in 2015, after project working capital balances have been paid down.

Consistent with the nature of the Group's activities and its ongoing investment of funds into exploration and development projects the Group has experienced operating losses of \$3,181,722 and negative cash flows from operations of \$1,158,041 during the year ended 30 June 2014. At 30 June 2014, the Group has net current liabilities amounting to \$1,796,708 (2013:\$1,237,272). The Group's cash position at balance date was \$166,113 which will not be sufficient to fund both the cash redemption of the Convertible Notes (if that is required) and the Group's forecast cash outflows from operations for the twelve month period to September 2015. As outlined above, the cost of developing the Lorena Gold Project is being funded by BCD, however should the Group wish to undertake any further exploration activity this will only be possible as and when sufficient funds are available to the Group.

As a result of these matters, there is a material uncertainty related to events or conditions that may cast significant doubt on 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.

MALACHITE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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

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:

- achieving positive cash flows from the Lorena Gold Project in 2015 through BCD's successful development of the project to commercial production;
- raising appropriate funding through equity or debt;
- extending (if necessary) for a short period of time the repayment of the Convertible Notes to suit available resources and the timing of the cash flows from the Lorena Gold Project or alternatively, converting the Convertible Notes into shares or redeeming them via a capital raising;
- selling some non-core assets in the short-term;
- entering into a corporate transaction; or
- making further reductions to its ongoing operating cost base.

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 financial year. The Group has also been successful in extending the term of the Convertible Notes and raising additional Convertible Notes. The Group is also confident that it will be able to generate cash inflows from its Lorena Gold Project in 2015. On that basis the directors believe it is reasonable to expect 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 2014. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

The attached financial report for the year ended 30 June 2014 contains an independent auditor's report which includes an emphasis of matter paragraph in regard to the existence of a material uncertainty that may cast significant doubt about the Group's ability to 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 2014 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.

MALACHITE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Employee benefits Continued)

(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 29.

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.

(e) Exploration and Evaluation Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. Such expenditure comprises direct costs and depreciation and does not include general overheads or administrative expenditure not having a nexus with a particular area of interest.

These costs are only carried forward where there is current or planned activity and rights of tenure, and one of the following conditions is met:

- the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale
- exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, but, nevertheless, active and significant operations in, or in relation to, 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 in accordance with AASB 6 *Exploration for and Evaluation of Mineral Resources* and the Group's impairment policy (note 1(h))

(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.

MALACHITE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(i) 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.

MALACHITE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Borrowings (continued)

Convertible notes

On issuance of the convertible notes, an assessment is made to determine whether the convertible notes contain an equity instrument or whether the whole instrument should be classified as a financial liability.

When it is determined that the whole instrument is a financial liability and no equity instrument is identified, the conversion option is separated from the host debt and classified as a derivative liability. The carrying value of the host contract, at initial recognition is determined as the difference between the consideration received and the fair value of the embedded derivative. The host contract is subsequently measured at amortised cost using the effective interest rate method. The embedded derivative is subsequently measured at fair value at the end of each reporting period through the profit and loss. The convertible note and the derivative are presented as a single number on the balance sheet within interest-bearing loans and borrowings.

When it is determined that the instrument contains an equity component based on the terms of the contract, on issuance of the convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond. This amount is classified as a financial liability measured at amortised cost (net of transaction costs) until it is extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in equity. Transaction costs are deducted from equity, net of associated income tax. The carrying amount of the conversion option is not re-measured in subsequent years.

(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 designated 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.

(m) Leases

Leases in which a significant portion of the risks and rewards of ownership 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.

MALACHITE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

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) 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.

(t) Parent entity financial information

The financial information for the parent entity, Malachite Resources Limited, disclosed in note 30 has been prepared on the same basis as the consolidated financial statements.

MALACHITE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) New accounting standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2014, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2017	30 June 2018
AASB 1031 'Materiality' (2013)	1 January 2014	30 June 2015
AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'	1 January 2014	30 June 2015
AASB 2013-3 'Amendments to AASB 135– Recoverable Amount Disclosures for Non-Financial Assets'	1 January 2014	30 June 2015
AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities'	1 January 2014	30 June 2015
AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'	1 January 2014	30 June 2015

The Group does not anticipate that there will be a material effect on the financial statements from the adoption of these standards.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks; market 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:

	2014 \$	2013 \$
Financial assets		
Cash and cash equivalents	166,113	135,685
Trade and other receivables	454,927	489,681
	<u>621,040</u>	<u>625,366</u>
Financial liabilities		
Trade and other payables	427,034	178,627
Borrowings	1,389,279	1,058,645
	<u>1,816,313</u>	<u>1,237,272</u>

(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 2014, 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 \$7,140 lower /higher (2013: change of 100 bps: \$8,495 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.

(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.

MALACHITE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

2 FINANCIAL RISK MANAGEMENT (CONTINUED)

(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 .

The Group's position with respect to going concern is outlined in 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
2014							
Non-derivatives							
Non-interest bearing	427,034	-	-	-	-	427,034	427,034
Fixed rate							
Borrowings (excluding hire purchase) *	1,356,808	-	-	-	-	1,356,808	1,350,000
Hire purchase liabilities	11,227	11,227	20,583	-	-	43,038	39,279
Total Non-derivatives	1,795,069	11,227	20,583	-	-	1,826,880	1,816,313

* The Convertible notes where rolled over refer note 26.

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
2013							
Non-derivatives							
Non-interest bearing	178,627	-	-	-	-	178,627	178,627
Fixed rate							
Borrowings (excluding hire purchase)	1,002,016	-	-	-	-	1,002,016	1,000,000
Hire purchase liabilities	13,277	48,851	-	-	-	62,128	58,645
Total Non-derivatives	1,193,920	48,851	-	-	-	1,242,771	1,237,272

(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.

(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.

The Group holds embedded derivatives on convertible notes which are valued based upon a valuation technique as discussed in note 15.

As the inputs are not based on observable market data, the instrument is included in level 3 of the fair value hierarchy.

MALACHITE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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 regarding future commodity prices and level of demand for these commodities and cost of production, which will affect whether economically variable 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.

Carried forward exploration and evaluation expenditures amounting to \$25,046,191 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 29 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 two segments within mineral exploration and development in Australia. The Group has two reportable segments, as described below, for which the Board of Directors (the chief operating decision maker) reviews internal management reports on a monthly basis.

Lorena

The development of the Group's main mining project, the Lorena Gold Project ("Lorena") near Cloncurry in northwest Queensland.

Other Tenements

Carrying out exploration and seeking further development of other tenements.

Segment assets

Information about reportable segments

The key segment assets as reported to the Board are as follows:

	2014	2013
	\$	\$
<i>Exploration</i>		
Lorena	23,721,191	23,721,191
Other Tenements	1,325,000	2,915,000
	<u>25,046,191</u>	<u>26,636,191</u>

2014	Lorena	Other Tenements	Corporate	Total
Revenue from continuing operations	-	-	155,180	155,180
Accounting and audit expense	-	-	(71,386)	(71,386)
Corporate expenses	-	-	(267,058)	(267,058)
Depreciation and amortisation expense	-	-	(52,606)	(52,606)
Employee benefits expense	-	-	(268,694)	(268,694)
Exploration expenditure expensed	(444,772)	(103,265)	-	(548,037)
Impairment of exploration assets	-	(1,640,000)	-	(1,640,000)
Impairment of property	-	-	-	-
Finance costs	-	-	(341,757)	(341,757)
Occupancy expenses	-	-	(72,381)	(72,381)
Other expenses from ordinary activities	-	-	(74,983)	(74,983)
Loss before income tax expense	(444,772)	(1,743,265)	(993,685)	(3,181,722)
Income tax expense	-	-	-	-
Net loss for the year	(444,772)	(1,743,265)	(993,685)	(3,181,722)

MALACHITE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

4 SEGMENT INFORMATION (CONTINUED)

2013	Lorena	Other Tenements	Corporate	Total
Revenue from continuing operations	-	-	126,861	126,861
Accounting and audit expense	-	-	(73,681)	(73,681)
Corporate expenses	-	-	(443,688)	(443,688)
Depreciation and amortisation expense	-	-	(70,764)	(70,764)
Employee benefits expense	-	-	(412,686)	(412,686)
Exploration expenditure expensed	(359,617)	(274,239)	-	(633,856)
Impairment of exploration assets	-	(7,954,087)	-	(7,954,087)
Impairment of property	-	-	(57,036)	(57,036)
Finance costs	-	-	(328,643)	(328,643)
Occupancy expenses	-	-	(84,753)	(84,753)
Other expenses from ordinary activities	-	-	(3,593)	(3,593)
Loss before income tax expense	(359,617)	(8,228,326)	(1,347,983)	(9,935,926)
Income tax expense	-	-	-	-
Net loss for the year	(359,617)	(8,228,326)	(1,347,983)	(9,935,926)

5 REVENUE

From continuing Operations and other income	\$	\$
Interest	7,469	24,997
Services	37,926	-
Net gain from disposal	-	9,254
Proceeds from disposal of other non-asset items	25,322	-
Gain on remeasurement of embedded derivatives	84,463	92,610
	155,180	126,861

6 EXPENSES

The loss before income tax includes the following expenses:

	2014 \$	2013 \$
Depreciation of non-current assets:		
- Property, Plant & equipment	36,796	47,907
- Motor vehicles	15,810	22,857
Total Depreciation	52,606	70,764
Employee entitlements - movement in provisions	(8,647)	(16,608)
Employee share based payments	6,727	64,700
Write off of exploration expenditure	548,037	633,856
Rental expense	81,777	81,777
<i>Finance costs</i>		
Convertible notes - interest	199,720	151,731
Convertible note - non-cash	111,962	171,548
Interest paid	30,075	5,364
	341,757	328,643

7 INCOME TAX

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	(3,181,722)	(9,935,926)
Prima facie income tax benefit calculated at 30% (2013:30%) of taxable loss	(954,517)	(2,980,778)
Non deductible items	2,018	19,410
Movement in unrecognised temporary differences	433,971	2,411,254
Taxable losses not recognised	518,528	550,114
Income tax expense	-	-

MALACHITE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

7 INCOME TAX (CONTINUED)

b)	Franking account balance	230	230
c)	Tax losses		
	Unused tax losses for which no deferred tax asset has been recognised.	37,795,811	36,067,385
	Potential tax benefit at 30%	11,338,743	10,820,216
d)	Deferred tax		
	Deferred tax capitalised exploration and evaluation costs	(994,489)	(994,489)
	Offset against deferred tax assets	994,489	994,489
	Net deferred tax	-	-

The deferred tax liabilities mainly stem from the immediate deduction of expenditure incurred on exploration and evaluation activities.

	2014	2013
	\$	\$
8 CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	166,113	135,685
	<u>166,113</u>	<u>135,685</u>

	2014	2013
	\$	\$
9 CURRENT ASSETS - TRADE AND OTHER RECEIVABLES		
Accounts Receivable	4,754	13,962
Employee advances	1,000	1,000
Rental bonds	1,800	1,800
GST receivables	2,092	3,138
Prepayments	28,677	21,880
	<u>38,323</u>	<u>41,780</u>

(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.

	2014	2013
	\$	\$
10 OTHER RECEIVABLES		
Carrying value of exploration and evaluation expenditure	75,000	375,000
Payments under the terms of purchase and sale agreement	-	(100,000)
Write-down of the asset to fair value	(50,000)	(200,000)
	<u>25,000</u>	<u>75,000</u>

The balance represents the fair value of the deferred consideration on the sale of Exploration License 6196 and 7177 to Elsmore Resources Limited.

	2014	2013
	\$	\$
11 NON-CURRENT ASSETS - TRADE AND OTHER RECEIVABLES		
Tenement security deposits	445,281	469,781
Rental bonds	-	37,673
	<u>445,281</u>	<u>507,454</u>

MALACHITE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

12 PROPERTY, PLANT AND EQUIPMENT

Plant and equipment		
at cost	344,302	350,032
accumulated depreciation	<u>(213,686)</u>	<u>(159,063)</u>
	130,616	190,969
Property		
at cost	-	417,036
accumulated depreciation	-	-
Impairment *	<u>-</u>	<u>(57,036)</u>
	-	360,000
Motor Vehicles		
at cost	126,423	173,924
accumulated depreciation	<u>(60,569)</u>	<u>(85,833)</u>
	65,854	88,091
Total property, plant and equipment	<u>196,470</u>	<u>639,060</u>

	Motor Vehicles	Property, Plant & Equipment	Total
	\$	\$	\$
Movement in property, plant and equipment			
Current Year			
Balance at 01 July 2013	88,091	550,969	639,060
Additions	-	-	-
Depreciation Expense	(15,810)	(36,796)	(52,606)
Disposals	(6,427)	(383,557)	(389,984)
Balance at 30 June 2014	<u>65,854</u>	<u>130,616</u>	<u>196,470</u>
Previous Year			
Balance at 01 July 2012	125,694	657,503	783,197
Additions	-	2,502	2,502
Depreciation Expense	(22,857)	(47,907)	(70,764)
Disposals	(14,746)	(4,093)	(18,839)
Impairment *	-	(57,036)	(57,036)
Balance at 30 June 2013	<u>88,091</u>	<u>550,969</u>	<u>639,060</u>

* Management assessed the carrying value of the property as at 30 June 2014 and concluded that no impairment was required (2013: \$57,036) .

13 EXPLORATION AND EVALUATION EXPENDITURE

Note	2014	2013
	\$	\$
Costs carried forward in respect of areas of interest in exploration and evaluation phases	<u>25,046,191</u>	<u>26,636,191</u>
Movement for year		
Balance at beginning of year	26,636,191	34,039,886
Expenditure capitalised during the year	-	350,392
Impairment	(1,590,000)	(7,754,087)
Balance at end of year	<u>25,046,191</u>	<u>26,636,191</u>

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 following impairments have been made to the carrying value of assets .

	2014	2013
	\$	\$
Impairment of costs carried forward in respect of areas of interest in exploration and evaluation phases		
Pikedale	-	284,781
Rivertree	-	52,978
Tooloom	-	475,538
Conrad	1,590,000	6,940,790
	<u>1,590,000</u>	<u>7,754,087</u>

MALACHITE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

13 EXPLORATION AND EVALUATION EXPENDITURE (CONTINUED)

In accordance with AASB 136 - *Impairment of Assets* an impairment charge has been made against the carrying value of the Conrad Silver Project, as a result of the significant and sustained decline in the silver price.

An impairment is recognised when the carrying amount exceeds the recoverable amount. The recoverable amount for Conrad has been determined on its fair value less transaction costs using peer group analysis, which was deemed from observable trading valuations of a comparable peer group in active markets.

The fair value of Conrad has been assessed by calculating the enterprise value per ounce resource of silver of the peer group and applying the median of these values (\$0.13) to 9.6 million ounces of estimated resource.

14 CURRENT LIABILITIES	2014	2013
	\$	\$
Trade and other payables		
Trade creditors	114,833	39,157
Other creditors	295,564	114,186
Employee entitlements	16,637	25,284
	<u>427,034</u>	<u>178,627</u>
15 BORROWINGS		
Current		
Unsecured Convertible Note (a)	1,300,000	1,000,000
Unsecured loan (b)	50,000	-
Hire purchase liabilities	19,674	58,645
Total current borrowings	<u>1,369,674</u>	<u>1,058,645</u>
Non Current		
Hire purchase liability	19,605	-
Total non current borrowings	<u>19,605</u>	<u>-</u>
Total borrowings	<u>1,389,279</u>	<u>1,058,645</u>

(a) Unsecured convertible note

As at 30 June 2014 the Convertible Notes had a maturity date of 5th July 2014. As noted in subsequent events, the Group successfully negotiated an extension of these Convertible Notes to 5 April 2015 and entered into subscription agreements for new Convertible Notes for a total of \$300,000.

The revised key terms of the Convertible Notes are summarised as follows:

- Maturity Date – 5th April 2015 ;
- Interest Rate – 15% per annum ;
- Conversion – at the election of Noteholders at any time;
- Conversion Price - lesser of \$0.015 or a 20% discount to the 30 Day VWAP at the time of conversion; and
- Rollover fee – 1.75% of the issue price to be satisfied by the issue of Ordinary Shares at a 20% discount to the 30 VWAP to 5 July 2014.

The terms of the new Convertible Notes are identical to the existing Convertible Notes as summarised above except that no Rollover Fee is payable.

Refer Note 26 for events subsequent to reporting date.

- (b) On 26 June 2014 the Group received a \$50,000 unsecured loan, from a Key Management Personnel, with an interest rate of 12% per annum. The loan was subsequently rolled into a new Convertible Note after the reporting date.

Refer Note 26 for events subsequent to reporting date.

MALACHITE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

16 CONTRIBUTED EQUITY	2014	2013
	\$	\$
1,005,576,368 fully paid ordinary shares (2013: 900,576,368)	56,051,389	55,573,227
	<u>56,051,389</u>	<u>55,573,227</u>

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 \$	Share capital \$
1 July 2012	Opening balance	699,426,696		54,013,516
28-Sep-12	Share placement issue of 104,914,004 shares at 1.0 cents per share	104,914,004	0.0100	1,049,140
09-Nov-12	Rights issue 89,371,189 shares @ 1 cent plus 44,685,595 MAROA Options	89,371,189	0.0100	893,712
08-Feb-13	Exercise of MAROA options @ 1.5 cents	11,688	0.0150	175
* 16-Apr-13	Shares issued in payment of Rollover Fee to Convertible note holders	2,205,882	0.0000	
* 16-Apr-13	Shares issued in payment of Rollover Fee to Convertible note holders	2,435,065	0.0000	
* 16-Apr-13	Shares issued in payment of Rollover Fee to Convertible note holders	1,029,412	0.0000	
* 16-Apr-13	Shares issued in payment of Rollover Fee to Convertible note holders	1,182,432	0.0000	
	Transaction costs relating to share issues			(383,316)
30 June 2013		<u>900,576,368</u>		<u>55,573,227</u>
20-Nov-13	Share placement issue of 105,000,000 shares @\$0.005 per share Transaction costs relating to share issues	105,000,000	0.0050	525,000 (46,838)
30 June 2014	Balance at end of year	<u>1,005,576,368</u>		<u>56,051,389</u>

(b) Capital risk management

The Group's objective when managing capital is to safeguard its ability to continue as a going concern (refer to note 1(a)), 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				Exercised during year	Number on issue 30 June 2014
		on issue 1 July 2013	Granted during year	Transferred during year	Expired during year *		
Listed							
31/03/2015	0.015	44,673,907	-	-	-	-	44,673,907
31/03/2015	0.015	97,142,597	-	-	-	-	97,142,597
		<u>141,816,504</u>	-	-	-	-	<u>141,816,504</u>
Unlisted							
25/11/2013	0.200	5,900,000	-	-	(2,000,000)	-	3,900,000
25/11/2013	0.200	600,000	-	-	(600,000)	-	-
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	8,550,000	-	-	(250,000)	-	8,300,000
25/05/2015	0.075	8,550,000	-	-	(250,000)	-	8,300,000
		<u>34,600,000</u>	-	-	<u>(3,100,000)</u>	-	<u>31,500,000</u>

* Options expire on their expiry date or for those issued under the Employee Option Plan 3 months after the employee ceases to be employed.

MALACHITE RESOURCES LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014**

18 RESERVES	2014	2013
<i>Share based payments reserve</i>	<u>\$</u>	<u>\$</u>
Balance at beginning of year	2,097,662	1,803,688
Option Expenses	6,727	293,974
Balance at end of year	<u>2,104,389</u>	<u>2,097,662</u>

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	2014	2013
	<u>\$</u>	<u>\$</u>
Accumulated losses at beginning of financial year	(30,872,991)	(20,937,065)
Net loss for year	(3,181,722)	(9,935,926)
Accumulated losses at end of financial year	<u>(34,054,713)</u>	<u>(30,872,991)</u>

20 KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors

The directors of Malachite Resources Limited during the year were:

Mr Terry Cuthbertson	- Non-Executive Director	(appointed Chairman 26/07/13)
Mr James Dean	- Non-Executive Director	
Mr Andrew McMillan	- Non-Executive Director	
Mr Russell Meares	- Non-Executive Director	(resigned 31/12/13)

(b) Other key management personnel

Mr Geoffrey Hiller	- Chief Executive Officer
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(c) Key Management Personnel compensation

	2014	2013
	<u>\$</u>	<u>\$</u>
Short-term employee benefits	408,792	564,272
Post-employment benefits	1,819	9,875
Long-term benefits	-	-
Share-based payments	5,766	55,576
	<u>416,377</u>	<u>629,723</u>

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

(d) Related party transactions

On 26 June 2014 the Group received a \$50,000 unsecured loan, from a Key Management Personnel, with an interest rate of 12% per annum. The loan was subsequently rolled into a new Convertible Note after the reporting date.

For transactions subsequent to 30 June 2014 in relation to Convertible Notes with key management personnel see note 26.

21 AUDITORS' REMUNERATION

Remuneration of the auditor of the Group for: Audit services	2014	2013
	<u>\$</u>	<u>\$</u>
Fees paid to PricewaterhouseCoopers Australian firm		
Audit and review of financial reports under the <i>Corporations Act 2001</i>	<u>67,626</u>	<u>65,300</u>

22 CONTINGENT LIABILITIES

There are no material contingent liabilities (2013:nil).

MALACHITE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

23 COMMITMENTS FOR EXPENDITURE

(a) **Capital Expenditure Commitments**

There are no capital commitments at the end of the financial year (2013: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.

	2014	2013
	\$	\$
Operating leases		
Not later than one year	4,620	145,255
Later than 1 year but not later than 5 years	1,540	6,160
Later than 5 years	-	-
	<u>6,160</u>	<u>151,415</u>

(c) **Tenement Commitments**

Tenement Expenditure required under tenement licence

Not later than one year	127,000	133,753
Later than 1 year but not later than 2 years	189,000	167,000
Later than 2 years	-	-
	<u>316,000</u>	<u>300,753</u>

(d) **Hire Purchase Commitments**

Not later than one year	22,455	62,128
Later than 1 year but not later than 5 years	20,583	-
	<u>43,038</u>	<u>62,128</u>
Future finance charges	(3,759)	(3,483)
Recognised as liability	<u>39,279</u>	<u>58,645</u>

24 RELATED PARTY TRANSACTIONS

(a) **Parent entity**

The parent entity within the Group is Malachite Resources Limited.

(b) **Key management personnel**

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

For transactions subsequent to 30 June 2014 in relation to Convertible Notes with key management personnel see note 26.

25 INVESTMENT IN CONTROLLED ENTITY

Name of controlled entity	Country of incorporation	Class of shares	Ownership interest	Ownership interest
			2014	2013
			%	%
Conrad Silver Mines Pty Ltd (formerly Elsmore Mining Pty Ltd)	Australia	Ordinary	100	100
Volga Elderberry Pty Ltd	Australia	Ordinary	100	100

26 EVENTS SUBSEQUENT TO REPORTING DATE

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

The Group successfully negotiated an extension and variation of the existing Convertible Notes with a face value of \$1.3 million. The revised key terms of the Convertible Notes are as follows:

- Maturity Date of 5 April 2015;
- Interest Rate of 15% per annum;
- Conversion – at the election of Noteholders at any time;
- Conversion Price – the lesser of \$0.015 or 20% discount to the 30 Day VWAP at the time of conversion; and
- Rollover fee – 1.75% of the issue price to be satisfied by the issue of Ordinary Shares at a 20% discount to the 30 VWAP to 5 July 2014.

MALACHITE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

26 EVENTS SUBSEQUENT TO REPORTING DATE (CONTINUED)

The Group entered into subscription agreements for new Convertible Notes which have a total face value of \$0.3 million. The terms of the new Convertible Notes are identical to the existing Convertible Notes as summarised above except that no Rollover Fee is payable. Key Management Personnel of the Group subscribed for \$0.125 million of new Convertible Notes.

The \$0.05 million unsecured loan was rolled into one new Convertible Note.

Shareholder approval will be sought at the Company's Annual General Meeting in November 2014 to approve the conversion of these Notes into fully paid ordinary shares should Noteholders elect to exercise their conversion rights.

In addition, Mr. Andrew McMillan, who is a Director of the Company, has subscribed for one of the new Convertible notes subject to specific shareholder approval which will also be sought at the upcoming Annual General Meeting. The \$50,000 received from Mr McMillan will be treated as a loan until his Convertible Note has been approved by shareholders.

Subject to shareholder approval the total face value of Convertible Notes on issue will then be \$1,600,000.

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.

27 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:

	2014	2013
	\$	\$
Cash	166,113	135,685
	<u>166,113</u>	<u>135,685</u>
(b) Non-cash financing and investing activities		
Financing costs	89,212	55,000
Capital raising costs	-	174,274
	<u>89,212</u>	<u>229,274</u>
(c) Reconciliation of operating profit after income tax to net cash flows from operating activities		
Operating loss after income tax	(3,181,722)	(9,935,926)
Non cash		
Depreciation	52,606	70,764
Employee share-based payments	6,727	64,700
Exploration expenditure written off	548,037	633,856
Impairment	1,640,000	8,011,123
Finance fees	111,963	171,548
Net (profit) loss on sale of assets	74,984	(5,661)
Security deposit	(28,000)	-
GST on proceeds on sale of assets	(2,000)	-
Gain on remeasurement of embedded derivatives	(84,463)	(92,610)
	<u>(861,868)</u>	<u>(1,082,206)</u>
Changes in assets and liabilities		
Decrease/(Increase) in receivables	10,254	63,025
Decrease/(Increase) in prepayments	(6,797)	2,516
Decrease (Increase) in exploration and evaluation expenditure	(548,037)	(984,248)
Increase/(decrease) in employee entitlements	(8,647)	(16,608)
Increase/(decrease) in payables	257,054	(14,683)
Net cash inflow/(outflow) from operating activities	<u>(1,158,041)</u>	<u>(2,032,204)</u>

MALACHITE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

28 LOSS PER SHARE	2014	2013
	\$	\$
Basic and diluted loss per share (cents per share)	(0.33)	(1.19)
Weighted average number of ordinary shares outstanding during the year used in calculation of basic loss per share	964,727,053	837,485,893

The options outlined in Note 17 are considered potential ordinary shares and should be included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic loss per share in 2014 or 2013.

29 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 21 November 2013. 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	Other changes	Balance at end of the year	Exercisable at end of the year
			Number	Number	Number	Number	Number	Number	Number
2014									
23 Dec 2008	25 Nov 2013	0.200	600,000	-	-	(600,000)	-	-	-
5 April 2012	25 May 2015	0.050	8,550,000	-	-	(250,000)	-	8,300,000	8,300,000
		0.075	8,550,000	-	-	(250,000)	-	8,300,000	8,300,000
Total			17,700,000	-	-	(1,100,000)	-	16,600,000	16,600,000
Weighted average exercise price			\$0.06	\$0.00	\$0.00	\$0.03	\$0.00	\$0.06	
2013									
31 Jan 2008	22 Nov 2012	0.431	760,000	-	-	(760,000)	-	-	-
23 Dec 2008	25 Nov 2013	0.200	850,000	-	-	(250,000)	-	600,000	600,000
21 Mar 2011	21 April 2013	0.100	2,000,000	-	-	(2,000,000)	-	-	-
5 April 2012	25 May 2015	0.050	8,750,000	-	-	(200,000)	-	8,550,000	8,550,000
		0.075	8,750,000	-	-	(200,000)	-	8,550,000	-
Total			21,110,000	-	-	(3,410,000)	-	17,700,000	9,150,000
Weighted average exercise price			\$0.08	\$0.00	\$0.00	\$0.18	\$0.00	\$0.07	

(ii) Directors Options

No options were granted to Directors for the year ending 30 June 2014.

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.

MALACHITE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

29 SHARE-BASED PAYMENTS (CONTINUED)

(ii) Directors Options (continued)

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	Other changes	Balance at end of the year	Exercisable at end of the year
			Number	Number	Number	Number	Number	Number	Number
2014									
25 Nov 2008	25 Nov 2013	0.200	2,000,000	-	-	(2,000,000)	-	-	-
25 Nov 2011	25 May 2015	0.050	3,000,000	-	-	-	(1,500,000)	1,500,000	1,500,000
	25 May 2015	0.075	3,000,000	-	-	-	(1,500,000)	1,500,000	1,500,000
Total			8,000,000	-	-	(2,000,000)	(3,000,000)	3,000,000	3,000,000
			\$0.10	\$0.00	\$0.00	\$0.20	\$0.00	\$0.06	
2013									
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	-	-	-	(3,900,000)	2,000,000	2,000,000
25 Nov 2011	25 May 2015	0.050	5,500,000	-	-	-	(2,500,000)	3,000,000	3,000,000
	25 May 2015	0.075	5,500,000	-	-	-	(2,500,000)	3,000,000	-
Total			22,800,000	-	-	(5,900,000)	(8,900,000)	8,000,000	5,000,000
Weighted average exercise price			\$0.19	\$0.00	\$0.00	\$0.43	\$0.12	\$0.11	

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:

	2014 \$	2013 \$
Options issued under the plan and to Directors	6,727	64,700
	6,727	64,700

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

2014

No shares issued for services under a share based payment arrangement during the year.

MALACHITE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

29 SHARE-BASED PAYMENTS (CONTINUED)

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

2014

No shares issued for services under a share based payment arrangement during the year

2013

Issue of fully paid ordinary shares in accordance with the terms of the convertible notes valued at \$55,000 charged to the share based payments reserve.

Grant date	Number	Fair value per share cents	Total fair value \$
16-Apr-13	3,235,294	0.85	27,500
16-Apr-13	2,435,065	0.77	18,750
16-Apr-13	1,182,432	0.74	8,750
Total	6,852,791		55,000

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

2014

No options issued for services under a share based payment arrangement during the year

2013

Grant date	Number	Fair value per share cents	Total fair value \$
4-Dec-12	44,685,595	0.39	174,274
Total	44,685,595		174,274

30 PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

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

	2014 \$	2013 \$
Balance sheet		
Current assets	228,404	252,465
Non-current assets	26,309,293	27,782,705
Total assets	26,537,697	28,035,170
Current liabilities	1,796,708	1,237,272
Non-current liabilities	268,829	249,224
Total liabilities	2,065,537	1,486,496
Net Assets	24,472,160	26,548,674
Equity		
Contributed equity	56,051,389	55,573,227
Option reserve expense	2,104,389	2,097,662
Accumulated losses	(33,683,618)	(31,122,215)
Total equity	24,472,160	26,548,674
Profit or loss for the year	(2,561,403)	(10,229,242)
Total comprehensive income	(2,561,403)	(10,229,242)

MALACHITE RESOURCES LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014**

30 PARENT ENTITY FINANCIAL INFORMATION (CONTINUED)

(b) Guarantees entered into by the parent entity

The parent entity did not have any financial guarantees as at 30 June 2014 or 30 June 2013.

(c) Contingent liability of parent entity

The parent entity did not have any contingent liabilities as at 30 June 2014 or 30 June 2013.

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 2014 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



Terry Cuthbertson
Non-Executive Chairman

Sydney, 30 September 2014



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 consolidated statement of financial position as at 30 June 2014, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 Malachite Resources Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at 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 (a), 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. Those 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 consolidated 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.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

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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 2014 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*.
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1 (a).

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 operating cash flows during the year ended on 30 June 2014, 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's joint venture partner (BCD Resources NL) being able to obtain funding to complete the development of the Lorena Gold Project, the consolidated entity being successful in achieving positive cash flows from the Lorena Gold Project and raising additional funds. These conditions, along with other matters as set forth in Note 1 (a), indicate the existence of a material uncertainty that 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 settle 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 12 of the directors' report for the year ended 30 June 2014. 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 2014 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'B Entwistle', is written over the printed name of the partner.

Brett Entwistle
Partner

Sydney
30 September 2014