

# malachite resources

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## QUARTERLY REPORT for the period ending 30 September 2016

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### OVERVIEW

ASX Code: MAR

Issued Shares: 1,132,914,821

ABN: 86 075 613 268

#### Directors

Terry Cuthbertson

James Dean

Andrew McMillan

#### Top Shareholders

Mr Lindsay Jones

Olhoc Pty Ltd

Morrison Charity Trustee Ltd

#### Head Office

Malachite Resources Limited

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31 October 2016

- Lorena Gold Project:
  - Malachite and Ore Processing Services Pty Ltd (“OPS”) have entered into a heads of agreement for OPS to supply, commission and operate a modular mineral processing plant to produce gold dore on site. In return OPS will earn lease fees, management fees and a 30% interest in the project once operations commence.
  - During the quarter, OPS entered into an agreement with MKS Precious Metals (Australia) Pty Ltd (“MKS”) to acquire their interest in the gold concentrator plant and equipment partly constructed on site. This will facilitate a speedier and more cost effective development of the project.
  - Subsequent to the period, the Company entered into a financing terms sheet with ResCap Investments Pty Ltd (“ResCap”) in respect of a \$5m facility for the purpose of funding its obligations to bring the Lorena Gold Project into production.
- Corporate:
  - The Company is seeking shareholder approval at the Annual General Meeting to extend the maturity date on existing Convertible Notes to 1 July 2017 and to be able to capitalise interest for these notes.
  - The Company resolved to proceed with a Share Purchase Plan (“SPP”) to provide the Company with additional working capital while it progresses the finance facility. New shares to be issued under the SPP are offered at \$0.0025 per share. The SPP offer closes on 7 November 2016.



## Lorena Gold Project

### MLs 7147, 90192 – 90196

As announced previously, the Company has entered into a non-binding heads of agreement with OPS (“Malachite Heads of Agreement”) to establish and operate a mineral processing plant to produce gold on site at the Company’s Lorena Gold Project, which is located about 15km east of Cloncurry in northwest Queensland

OPS will take responsibility for the supply, commissioning and operation of the whole mineral processing plant to produce gold doré on site.

In September 2016 OPS advised that it had entered into a binding agreement to acquire plant and equipment from MKS Precious Metals (Australia) Pty Ltd that had previously been constructed on the Lorena Gold Project site (“Lorena Concentrator Plant”). The acquisition is conditional on completion of financing amongst other conditions precedent. When OPS finalises this acquisition it will then be required to both complete the Lorena Concentrator Plant and to supply a modular CIL circuit to provide an end to end mineral processing plant capable of producing gold dore on site. The acquisition of the Lorena Concentrator Plant does not have any material impact on the terms of the Malachite Heads of Agreement. OPS have advised that their efforts to procure their financing of the Lorena Gold Project are well advanced.

When the acquisition by OPS is completed, Malachite and OPS will then have an unfettered opportunity to proceed with the development of the Lorena Gold Project utilising the Lorena Concentrator Plant. This is expected to facilitate a speedier and more cost effective development of the project.

The total cost of the whole mineral processing plant and the time frame within which it will become available are both expected to be reduced by the acquisition of the Lorena Concentrator Plant. This will benefit the Company by reduced equipment lease fees and by achieving earlier gold production.



*Lorena Concentrator Plant*



The arrangement between OPS and Malachite remains subject to a number of conditions precedent including:

- Completion of appropriate environmental approvals to allow a CIL plant on site;
- Completion of confirmatory design test work on the CIL circuit;
- Malachite raising funds for preparatory work;
- OPS raising funding for their OPS plant modules;
- Completion of formal documentation.

As previously advised, the key terms of Malachite's arrangement with OPS are as follows:

- OPS will earn a 30% equity interest in the Lorena Gold JV ("LGJV") once operations commence;
- OPS will receive equipment lease fees from the LGJV for provision of the modular processing plant;
- OPS will earn a 5% management fee of the processing cost of the LGJV and an additional 10% management fee based on performance against financial targets.
- Malachite will provide project funding of around A\$2.5m for preparatory works, which includes necessary environmental bonds, tailings dam construction, initial mining costs, water supply and preparatory ground works for the OPS modules.

Both companies are aiming to bring Lorena into production in late 2017. Further details on project timing will be available once the conditions precedent noted above have been finalised.

### **Financing Terms Sheet**

Subsequent to the period, the Company announced that it had entered into a Financing Terms Sheet with ResCap Investments Pty Ltd ("ResCap") in respect of a \$5 million facility for the purpose of funding its obligations to bring the Lorena Gold Project into production. ResCap is an experienced lender and investor to mid-tier producers (and emerging producers) within the resources industry.

This facility will enable Malachite to fund preparatory project site works in the order of \$2.5 million and any working capital that may be required. This funding enables Malachite to satisfy one of the major condition precedents to the OPS Heads of Agreement.

### **Summary of Key Terms of the Transaction:**

- The facility is offered in 2 tranches with the first Tranche A of \$500,000 to be drawn down not later than 31 March 2017 and the second Tranche B of \$4,500,000 to then be drawn down within 18 months of the initial drawdown;
- The interest rate on the loan will be 9.0% per annum;
- ResCap will have first ranking security over all of the assets of the Company and receive a guarantee from subsidiaries of the Company;
- As part of the facility, Malachite will:
  - (i) Upon draw down of Tranche A pay \$15,000 and issue shares in Malachite equal to 10% of the fully diluted capital of Malachite;
  - (ii) Upon draw down of Tranche B pay \$325,000 and issue shares in Malachite equal to an additional 20% of the fully diluted capital of Malachite; and
  - (iii) Seek shareholder and regulatory approval to issue 30% of the fully diluted capital in Malachite;
- A termination fee of \$300,000 is payable in the event that Malachite executes the transaction documentation but proceeds with another financing proposal;
- Conditions Precedent apply to the drawdown of both Tranche A and Tranche B. The conditions precedent include, but not limited to, the following:



- (i) Confirmation of OPS's capacity to meet their costs of construction pursuant to the Malachite Heads of Agreement and to fund the purchase and completion of the Lorena Concentrator Plant;
  - (ii) Joint Venture and Project Due Diligence;
  - (iii) Appointment of Directors to the Board of Malachite;
  - (iv) Desktop study by OPS confirming capacity to bring the plant and circuit into production within a mutually agreed time line, and not later than 30 September 2017; and
- Execution of Transaction documentation with usual undertaking and default provisions.

Malachite will seek all relevant approvals from existing shareholders, convertible noteholders and regulatory authorities to implement this financing package.

### **About the Lorena Gold Project**

It is expected that the Lorena Gold Project will produce around 30,000 to 35,000 ozs of recovered gold in the eighteen months of production from an open cut operation.

Malachite believes that the Lorena Gold Project has potential for resource extensions at depth. Proving up these additional resources will require confirmation by drilling which Malachite proposes to undertake at the earliest opportunity subject to sufficient funding being available. The Company also believes that there are considerable regional opportunities which it will be able to pursue once the plant is operating to enhance the commercial return from project.

## **Corporate**

### **Share Purchase Plan**

On 29 September 2016, the Company proceeded with a Share Purchase Plan ("SPP") to provide the Company with additional working capital while it progresses the finance facility. Participation in the SPP is available to shareholders who are registered as holders of Malachite fully paid ordinary shares on the Record Date of 28 September 2016 and whose registered address is in Australia, New Zealand or Singapore. New shares to be issued under the SPP are offered at \$0.0025 per share, which represents a 16.67% discount to the closing price of \$0.003 on 28 September 2016.

The SPP offer has been extended and now closes on 7 November 2016.

### **Existing Convertible Notes**

The Company is seeking shareholder approval at its Annual General Meeting to extend the maturity date on existing Convertible Notes to 1 July 2017 and to be able to capitalise interest on these notes.



## Tenements

<b>Project</b>	<b>Tenement Number</b>
QUEENSLAND <i>Lorena</i>	ML 7147, ML 90192 , ML90193, ML 90194, ML 90195, ML 90196 EPM 18189, EPM 18908
NEW SOUTH WALES <i>Conrad (subject to sale to Silver Mines Limited)</i>	ML 5992, ML 6040, ML 6041 EPL 1050 EL 5977
NEW SOUTH WALES <i>Tooloom</i>	EL 6263

### Exploration/Mining Tenements Acquired/Disposed of during the Quarter

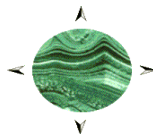
<b>Project</b>	<b>Location</b>	<b>Tenement</b>	<b>MAR Interest</b>
NIL			

### Beneficial Interest in Farm-In or Farm-Out Acquired/Disposed of during the Quarter

<b>Project</b>	<b>Location</b>	<b>Tenements</b>	<b>MAR Interest</b>
NIL			

## Further Information

For further information, please contact the Company on (02) 9251 0032 or by email at [info@malachite.com.au](mailto:info@malachite.com.au) or visit the Company's website at [www.malachite.com.au](http://www.malachite.com.au)



## Malachite Resources Limited

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Rule 5.5

### Appendix 5B

#### Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

Name of entity

**Malachite Resources Limited**

ACN or ARBN

**075 613 268**

Quarter ended ("current quarter")

**30 September 2016**

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
<b>1. Cash flows related to operating activities</b>		
1.1 Receipts from customers		
1.2 Payments for		
(a) exploration and evaluation	(38)	(38)
(b) development		
(c) production		
(d) staff costs	(28)	(28)
(e) administration	(71)	(71)
1.3 Dividends received (see note 3)		
1.4 Interest received	1	1
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid (received)		
1.7 Research and development refunds		
1.8 Other (provide details if material)	3	3
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(133)</b>	<b>(133)</b>
<b>2. Cash flows related to investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment		
(b) tenements (see item 10)		
(c) investments		
(d) other non-current assets		
2.2 Proceeds from the disposal of:		
(a) property, plant and equipment		
(b) tenements (see item 10)		
(c) investments		
(d) other non-current assets		
2.3 Cash flows from loans to other entities		
2.4 Dividends received (see note 3)		
2.5 Other - Security deposits	50	50
<b>2.6 Net cash from / (used in) investing activities</b>	<b>50</b>	<b>50</b>

+See chapter 19 for defined terms  
1 September 2016

Mining exploration entity and oil and gas exploration entity quarterly report

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
<b>3. Cash flows related to financing activities</b>		
3.1 Proceeds from issues of shares		
3.2 Proceeds from issue of convertible notes		
3.3 Proceeds from exercise of share options		
3.4 Transaction costs related to issues of shares, convertible notes or options		
3.5 Proceeds from borrowings	80	80
3.6 Repayment of borrowings		
3.7 Transaction costs related to loans and borrowings		
3.8 Dividends paid		
3.9 Other (provide details if material)		
<b>3.10 Net cash from / (used in) financing activities</b>	<b>80</b>	<b>80</b>

<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of period	67	67
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(133)	(133)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	50	50
4.4 Net cash from / (used in) financing activities (item 3.10 above)	80	80
4.5 Effect of movement in exchange rates on cash held		
<b>4.6 Cash and cash equivalents at end of period</b>	<b>64</b>	<b>64</b>

5. Reconciliation of cash	Current quarter \$A'000	Previous quarter \$A'000
Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts		
5.1 Bank balances	64	67
5.2 Call deposits		
5.3 Bank overdraft		
5.4 Other (provide details)		
<b>5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>64</b>	<b>67</b>

**6. Payments to directors of the entity and associates of the directors**

Current quarter \$A'000

- 6.1 Aggregate amount of payments to the parties included in item 1.2  
6.2 Aggregate amount of loans to the parties included in item 2.3  
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

**7. Payments to related entities of the entity and their associates**

Current quarter \$A'000

- 7.1 Aggregate amount of payments to the parties included in item 1.2  
7.2 Aggregate amount of loans to the parties included in item 2.3  
7.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

+See chapter 19 for defined terms  
1 September 2016

**Mining exploration entity and oil and gas exploration entity quarterly report**

**8. Financing facilities available**

Add notes as necessary for an understanding of the position.

Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
355	355
2,405	2,405

8.1 Loan facilities

8.2 Credit standby arrangements

8.3 Other - Convertible Notes (includes capitalised interest)

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

Facility description	Lender	Interest rate	Secured/unsecured
Loans	Key management personnel	12%	unsecured
Convertible notes	Note holders	15%	unsecured

9. Estimated cash outflows for next quarter *	\$A'000
9.1 Exploration and evaluation	
9.2 Development	
9.3 Production	
9.4 Staff costs	
9.5 Administration and corporate costs	60
9.6 Other (provide details if material)	
9.7 <b>Total estimated cash outflows</b>	<b>60</b>

\* On 10 October 2016, the company announced a shareholder purchase plan which closes on 7 November 2016.

10. Changes in interests in mining tenements	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced				
10.2 Interests in mining tenements and petroleum tenements acquired or increased				

+See chapter 19 for defined terms  
1 September 2016



Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement does give a true and fair view of the matters disclosed.

Sign here:   
(Company Secretary)

Date: 31 October 2016

Print name: Andrew J Cooke

Notes

1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.

2 If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.

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