

malachite resources

QUARTERLY REPORT for the period ending 31 December 2018

OVERVIEW

ASX Code: MAR

Issued Shares: 1,387,823,262

ABN: 86 075 613 268

Directors

Terry Cuthbertson

James Dean

Andrew McMillan

Top Shareholders

Mr Lindsay Jones

Olhoc Pty Ltd

Morrison Charity Trustee Ltd

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31 January 2019

Lorena Gold Project:

- The joint venture interests in the Project are Malachite 55%, Cloncurry Gold Recovery Management Pty Ltd (“CGR”) 30% and Ore Processing Services Pty Ltd (“OPS”) 15% for the open cut operation. CGR is the manager of a joint venture between Chinova Resources Tennant Creek Pty Ltd (70%) and BIM Gold Pty Ltd (30%). BIM Metals Pty Ltd is the joint venture manager of the Project.
- During the quarter 33,849 tonnes were processed at a grade of 3.33g/t Au with an average recovery of 53% to produce 2,185 ozs of gold; this was lower than project forecasts.
- There were ongoing challenges which impacted on gold production which resulted in inefficient stop/start processing.
- Production was adversely affected by cyanide supply difficulties, lower than forecast ore grades and lower than forecast metallurgical recoveries.
- Malachite has issued a Dispute Notice to its joint venture partners regarding numerous matters including past joint venture expenditures and the lack of an approved program and budget in respect of ongoing operations.

Lorena Exploration:

- A program of three drill holes designed to evaluate the down-plunge extension to the A Lode gold mineralization currently being mined in the Lorena open pit was completed during the quarter.
- Drill hole LRD125 reported 12m @ 0.8g/t Au and 0.3% Cu, containing a 1m maximum value of 2g/t Au. Although the Lorena A Lode structure was intersected, the low average grade of the intercept indicates that continuous high-grade gold mineralisation has not been intersected down-plunge to the southeast of the current open cut resource.



Lorena Gold Project

MLs 7147, 90192 – 90196 (Malachite 55% interest in open cut)

The Company's Lorena Gold Project ("Lorena Project") is located about 15km east of Cloncurry in northwest Queensland.) The Company advises operational performance at the Lorena Project during the quarter were well below expectations. The head grade, metallurgical recoveries and plant usage were all lower than forecast even though the operation had moved into processing the expected higher grade sulphide ore in October.

The Project is a joint venture between Malachite, Cloncurry Gold Recovery Management Pty Ltd ("CGR") and Ore Processing Services (OPS). CGR is the manager of a joint venture between Chinova Resources Pty Ltd (70%) and BIM Gold Pty Ltd (30%). BIM Metals Pty Ltd is the joint venture manager.

Each party's interest in the Open Cut operations at Lorena is as follows:

Joint Venture Participant	Equity Interest in Open Cut - Lorena Gold Project
Malachite	55%
CGR	30%
OPS	15%

Mining

During the quarter, 58,045 tonnes of ore was mined at an average grade of 3.16g/t Au (5,900 ozs of gold) with 157,455m³ of waste. The operations continued to experience difficulties with variable distribution of grade inside the mineralised zone. As a result the overall average grade of ore delivered for processing was lower than anticipated throughout the quarter. The grade mined was below the expected >6g/t Au.

Mining is continuing and is expected to be completed by the end of February 2019.

Mining costs for the quarter were \$3.3 million.

Lorena EX-Pit	Jan-18	Feb-18	Mar-18	Apr-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	YTD
Fresh Ore (BCM)	3,493	10,282	23,880	21,564	633	1,669	7,856	5,584	7,291	82,251
Total Ore Tonnes	8,775	25,830	59,991	54,172	1,588	4,188	21,996	15,634	20,415	212,589
Weighted Average Ore Grade g/t					10.12	5.28	3.39	1.75	3.99	-
Copper Bearing Ore (Tonnes)	-	-	-	-	-	-	-	-	92	92
Mineralised Waste (BCM)	1,155	298	-	-	-	-	-	-	-	1,453
NAF Waste (BCM)	95,662	84,630	98,101	80,532	19,152	41,471	47,568	22,697	14,875	504,688
PAF Waste (BCM)	32,688	18,812	7,015	14,148	396	5,240	26,186	7,565	38,472	150,522
Oxide (BCM)	-	-	-	-	-	-	-	-	-	-
Total Waste (BCM)	129,505	103,739	105,117	94,680	19,548	46,710	73,754	30,262	53,439	656,754
Total Ex Pit Waste & Ore (BCM)	132,998	114,021	128,997	116,244	20,181	48,379	81,610	35,846	60,730	739,006
Miscellaneous										-
TSF & Construction BCM	796	1,533	-	6,876	-	-	792			9,996
Rehandle BCM	6,110	72	1,390	-	-	-	396	1,764	-	9,732



Production

During the quarter, 33,849 tonnes were processed at a grade of 3.33g/t Au with an average recovery of 60% to produce 2,185 ozs of gold. Gold production levels were below expectation due to head grade, metallurgical recoveries and plant usage all being lower than forecast. Gold recoveries during the quarter were lower than expected due to problems with availability of cyanide (due to working capital constraints), differing ore mineralogy than expected and the presence of cyanide soluble copper in the ore.

Investigations have been undertaken into understanding how the pit mineralogy is translating into the process plant performance. It appears that the depth of weathering was deeper than modelled coupled with persistent cyanide soluble copper being present. Also, the presence of gold bearing pyrrhotite has become more prevalent since mining below the oxide sulphide transition zone. Copper sequential work on the orebody is indicating 11-20% of cyanide soluble copper present in the orebody.

Processing and administration costs for the quarter were \$4.5million. State gold royalty and capital recharge costs for the quarter totalled \$1.2 million.

2,309 ounces of gold were poured were for the quarter and 2,467 ounces of gold sold generating revenue of \$4.2 million.

Processing Monthly Physicals Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	YTD	
Crushed Tonnes (dmt)	18,606	14,925	13,768	22,605	17,920	13,466	101,290
Tonnes Processed (dmt)	15,453	10,225	12,794	16,535	11,145	6,169	72,321
Feed Rate (dmt/op.hr)	27	23	27	27	27	30	26.3
Mill Run Time	576	435	469	612	418	236	2,747
Mill Utilisation (%)	91%	69%	77%	91%	64%	36%	73%
Gold Head Grade (g/t)	3.21	3.43	3.41	3.86	3.31	1.94	3.33
Tail Grade (g/t)	0.94	0.83	0.82	1.04	1.85	1.11	1.08
Gold Recovery %	71%	76%	76%	73%	44%	43%	66%
Total Gold Production (oz)	1,128	855	1,065	1,499	523	165	5,235
Gold Poured (Oz)	799	1,111	563	1,134	616	559	4,783
Gold in Circuit @ Month End (Oz)	1,016	760	1,262	1,627	1,534	1,139	

Numbers in red are estimates only due to low density in the tanks.

At the end of the December there was approximately 113,000 tonnes of ore grading 3.38g/t Au on the ROM pad.

Joint Venture Matters

In December 2018, Chinova Resources Pty Ltd (Chinova) withdrew a working capital financing facility, which they had previously extended to joint venture participants to fund ongoing operations. Malachite does not believe that the project has adequate working capital and has on numerous occasions requested that the Project Manager provide a program and budget for ongoing operations.

Operations at the processing plant were suspended in December by the Joint Venture Manager pending receipt of adequate working capital funds to fund the processing operations. This suspension continued through the Christmas New Year break and thereafter.



Malachite has repeatedly requested that the Joint Venture Manager provide detailed information in relation to expenditures on the project. Malachite has also requested detailed project information and presentations presented to joint venture partners so that the Malachite Board can properly assess project returns. Malachite is unable to properly assess its position in relation to the joint venture and future cash calls until this information is provided by the Joint Venture Manager. In particular Malachite is seeking to establish that expenditure that has been attributed to the joint venture has been correctly classified and does not include costs that were the responsibility of individual joint venturers to earn equity in the project.

Malachite appointed Behre Dolbear Australia (“BDA”) to conduct an independent technical review of the project. BDA have provided the Company with a preliminary report which highlights numerous shortcomings and recommended that the joint venture operations be suspended whilst outstanding issues are resolved. Malachite has made a recommendation to the Joint Venture Committee that operations should be suspended however this recommendation was rejected by the other joint venturers.

The joint venture parties are endeavouring to resolve a number of contentious issues. Malachite has issued a Dispute Notice to its joint venture partners regarding numerous matters including past joint venture expenditures and the lack of an approved program and budget in respect of ongoing operations.

Exploration – Lorena Deeps Drilling

Exploration results for the drilling program completed during the quarter at the Lorena Gold Project were advised to the ASX on 21 December 2018.

The program of three drill holes was designed to evaluate the down-plunge extension to the A Lode gold mineralization currently being mined in the Lorena open pit. These holes were planned to evaluate two targets: (1) extensions to the high grade gold mineralization intersected in previous hole LMRD92, and (2) whether a significant downhole electromagnetic conductor (DHEM Target 1) was caused by a body of massive sulphide mineralization carrying gold.

Drill hole LRD125 reported 12m @ 0.8g/t Au and 0.3% Cu, containing a 1m maximum value of 2g/t Au. Although the Lorena A Lode structure was intersected, the low average grade of the intercept indicates that continuous high-grade gold mineralisation has not been intersected down-plunge to the southeast of the current open cut resource.

Drill hole LRD126, the deepest and most down-plunge drill hole to date, did not intersect any gold mineralisation in otherwise strongly pyrrhotite- and pyrite-altered rock thought to be an extension of the Lorena lode system. This hole also tested the eastern limit of the Mining Lease at depth.

Of significance, drill hole LRD124, which was designed to intersect the untested strong DHEM conductor (Target 1) was abandoned at 196.5m due to drilling difficulties caused by problematic ground conditions. This high priority target remains untested and will be evaluated in a future drilling program.

With the exception of the testing of the DHEM conductor (Target 1), the results to date indicate that gold mineralisation southeast and down-plunge of the current open cut resource lacks continuity over sufficient distances, and at sufficient average grades, to justify further exploration expenditure at this time.

The program consisted of two completed RC-diamond tail holes for a total of 595m and one other hole was abandoned due to problematic ground conditions (abandoned at 196.5 m).

Assays results are summarized in Table 1.



Figure 1 shows a NW-SE detailed long-section with drill hole traces using a 50 m lateral envelope and extends from established high grade gold mineralization beneath the current open pit to the south eastern, deeper extensions of the A Lode where the holes of the currently reported program were drilled. The 12 m long intersection of low-grade gold in LRD125 and the trace of barren hole LRD126 are shown to plot on either side of the previously drilled high grade intercepts of LMRD092, which was drilled in 2012 (announced to the ASX on 19 April 2012), and which also intersected 6.28m @ 12.39g/t Au from 223m and 8m @ 1.48g/t Au from 251m.

Figure 2 shows a schematic long section, along the same trend as that of Figure 1, but showing drill hole pierce points at the centre of the envelope rather than the projected drill hole traces. This permits a clearer depiction of the relationship between completed drill hole paths and the location of the untested and off-section DHEM conductor (Target 1).

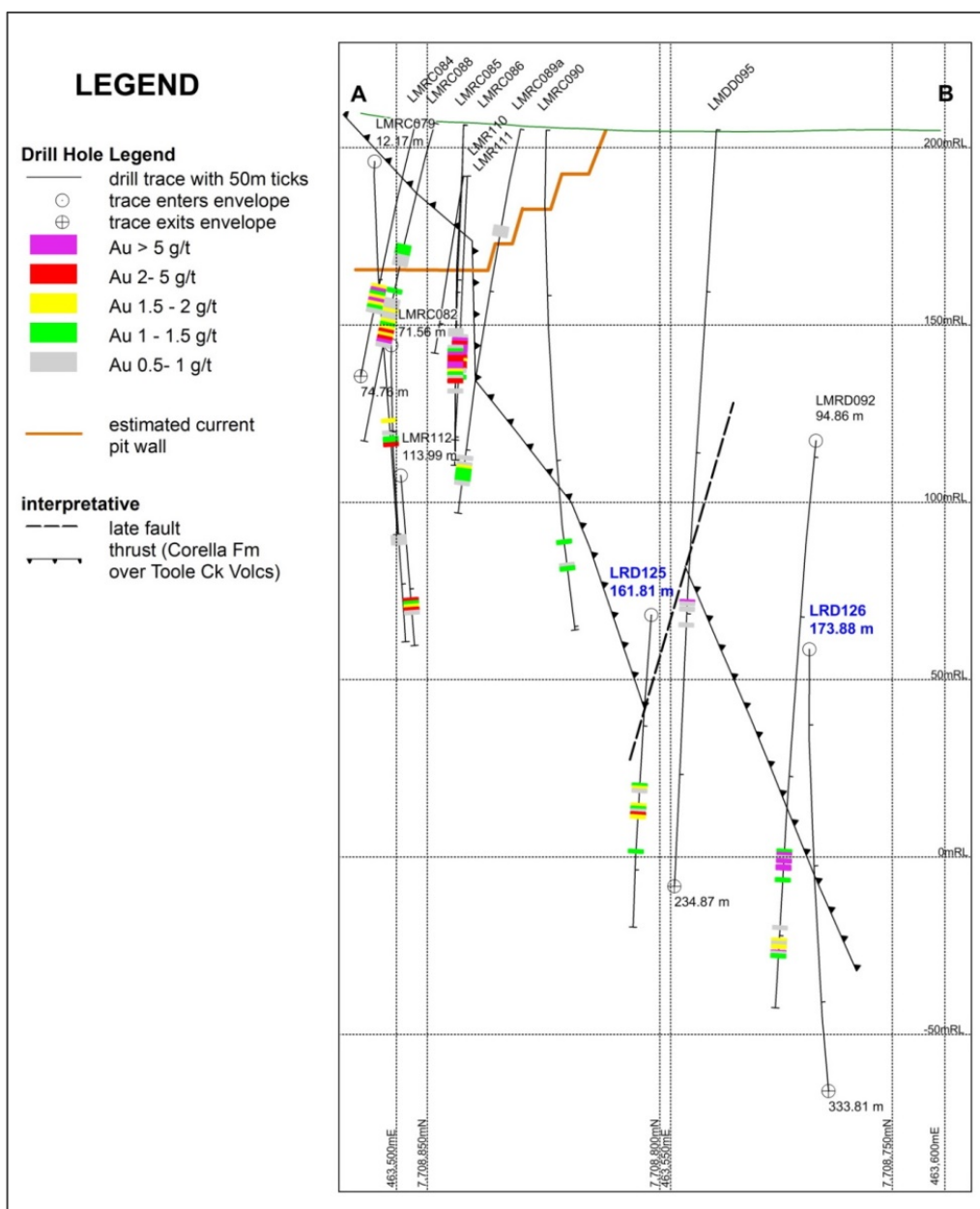


Figure 1: Lorena Gold Project – NW/SE long section of drill traces, Au assays and interpreted faults below and SE of the open-cut resource (50 m envelope)

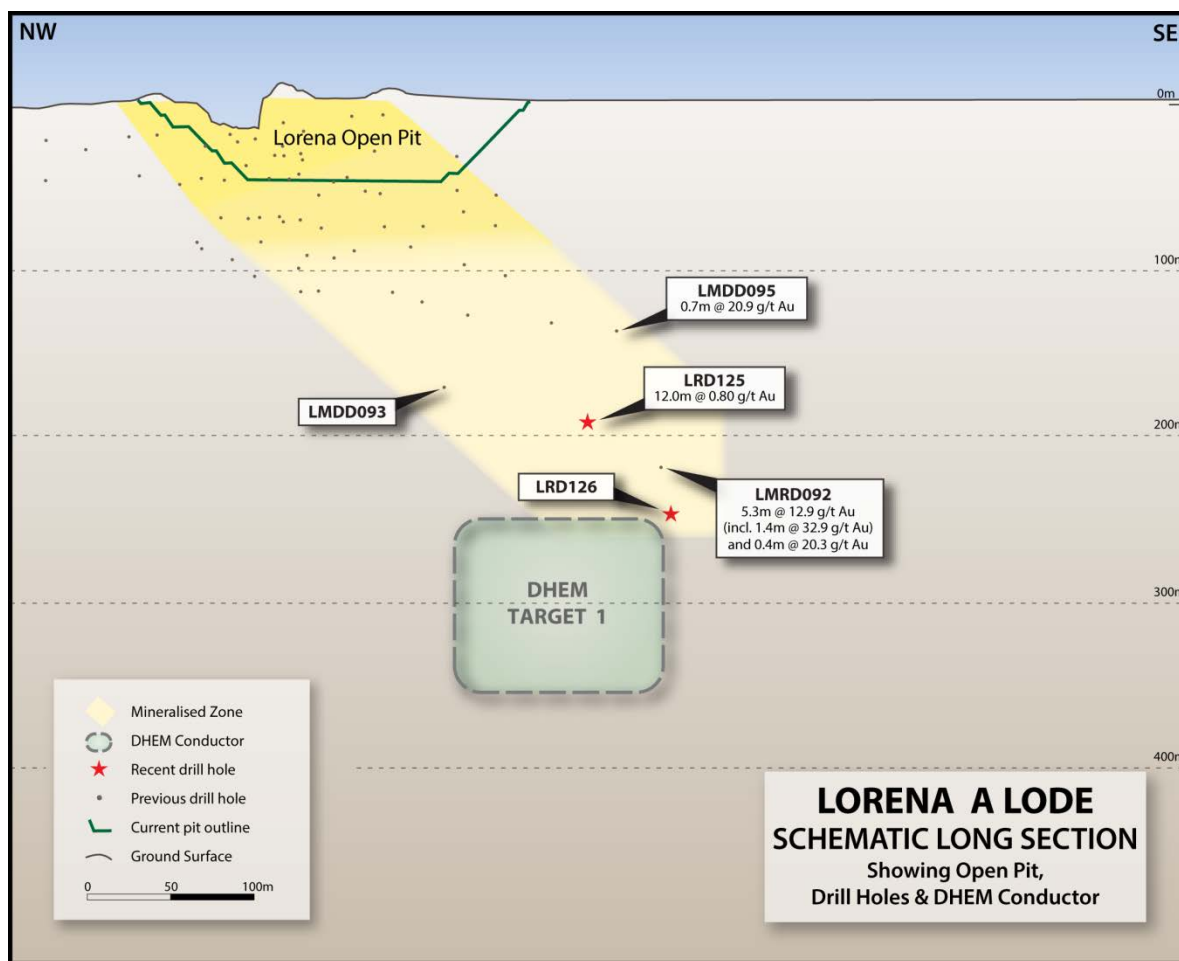


Figure 2: Lorena Gold Project – NW/SE schematic long section with drill hole pierce points into A Lode and location of DHEM conductor Target 1

Hole ID	East MGA	North MGA	Dip	Azimuth MGA	EOH (m)	Intercepts		Comment
						From (m)	To (m)	
LRD125	463448	7708704	-60	044	270.2	220	233	12m @ 0.8g/t Au (max. 1m result of 2g/t); 0.3% Cu
						254	257	3m @ 0.37% Zn
LRD126	463467	7708668.5	-60	045	337.6	290.5	331.2	Abundant Fe-sulfide, max. 1 m Au value of 0.04 g/t; Cu 0.03%
						296	302	6m @ 0.36% Zn

Intercepts calculated as weighted averages without cut-off

Table 1 - Lorena Gold Project – October-November 2018 Drilling Summary



Tenements

Project	Tenement Number
QUEENSLAND	
<i>Lorena (55%) open cut</i>	ML 7147, ML 90192 , ML90193, ML 90194, ML 90195, ML
<i>Lorena (70%) resources beneath the open cut</i>	90196
<i>Lorena EPMs (100%)</i>	EPM 18189, EPM 18908

Exploration/Mining Tenements Acquired/Disposed of during the Quarter

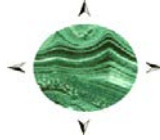
Project	Location	Tenement	MAR Interest
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Beneficial Interest in Farm-In or Farm-Out Acquired/Disposed of during the Quarter

Project	Location	Tenements	MAR Interest
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Further Information

For further information, please contact the Company on (02) 9251 0032 or by email at info@malachite.com.au or visit the Company's website at 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")

31-Dec-18

Consolidated statement of cash flows	Current quarter \$A'000	Year to date 6 months \$A'000
1. Cash flows related to operating activities		
1.1 Receipts from customers		
1.2 Payments for		
(a) exploration and evaluation	(254)	(262)
(b) development	(38)	(145)
(c) production		
(d) staff costs		(1)
(e) administration	(123)	(261)
1.3 Dividends received (see note 3)		
1.4 Interest received	3	3
1.5 Interest and other costs of finance paid	(141)	(196)
1.6 Income taxes paid (received)		
1.7 Research and development refunds		5
1.8 Other (provide details if material)		110
Lorena JV Management Fee		
1.9 Net cash from / (used in) operating activities	(553)	(747)
2. Cash flows related to investing activities		
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:		
Lorena security deposit		15
Lorena JV funding of security deposit	-	
2.6 Net cash from / (used in) investing activities	-	15

+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 6 months \$A'000
3. Cash flows related to financing activities		
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	(2)	(4)
3.5 Proceeds from borrowings	625	2,630
3.6 Repayment of borrowings	(201)	(421)
3.7 Transaction costs related to loans and borrowings		
3.8 Dividends paid		
3.9 Other (provide details if material)		
3.10 Net cash from / (used in) financing activities	422	2,205

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	1,675	71
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(553)	(747)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	-	15
4.4 Net cash from / (used in) financing activities (item 3.10 above)	422	2,205
4.5 Effect of movement in exchange rates on cash held		
4.6 Cash and cash equivalents at end of period	1,544	1,544

5. Reconciliation of cash 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	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	1,544	1,675
5.2 Call deposits		
5.3 Bank overdraft		
5.4 Other (provide details)		
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,544	1,675

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

- 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

Current quarter \$A'000

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

- 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 7.1 and 7.2

Current quarter \$A'000

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
140	140
500	500
5,372	5,372

8.1 Loan facilities

8.1 OPS Loan

8.2 Credit standby arrangements

8.3 Other - Convertible Notes (includes unpaid 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 .

Facility description	Lender	Interest rate	Secured/unsecured
Loan facilities	Key management personnel	12%	unsecured
OPS Loan	Ore Processing Services Pty Ltd	9%	unsecured
Convertible A and B notes	Note holders	15%	A notes secured , B notes unsecured
Convertible D notes	Note holders	17.5%	secured

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	90
9.6 Other (provide details if material)	225
9.7 Total estimated cash outflows	315

10. Changes in interests in mining tenements	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of 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-Jan-19

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.