



malachite resources

QUARTERLY REPORT for the period ending 30 June 2020

OVERVIEW

ASX Code: MAR

Issued Shares: 68,022,604

ABN: 86 075 613 268

Directors

Terry Cuthbertson
James Dean
Geoffrey Hiller

Top Shareholders

Michael John McCahill <ATF
MJ McCahill TA/C>
Sean McCahill Properties Ltd

Head Office

Malachite Resources Limited
Level 4
283 George St
SYDNEY NSW 2000

T: +61 (0)2 9251 0032

E: info@malachite.com.au

W: www.malachite.com.au

31 July 2020

Solomon Islands Nickel

- Malachite earned the second tranche of a 7.5% equity interest in Sunshine taking its total to 15.0% of Sunshine Minerals Limited ("Sunshine"), a private company incorporated in the Solomon Islands. Sunshine owns 80% of Sunshine Nickel which holds a prospecting licence containing the Jejevo Nickel Project located on the south coast of Santa Isabel Island. The remaining 20% of Sunshine Nickel is owned by local land owners.
- Subsequent to the quarter Malachite entered into a terms sheet with Sunshine to acquire the remaining 85.0% equity interest in Sunshine.
- The Jejevo Nickel Project is an advanced stage direct shipping ore nickel laterite project with excellent potential for development. The project was previously drilled in 2013 and the initial objective is to do sufficient work to confirm a 2012 JORC Resource at the earliest opportunity.
- The Jejevo Nickel Project has a number of positive aspects including its close proximity to the coast, no processing requirements, low capital route to direct shipping ore production and local landowner support. It is envisaged that mining of the project could potentially commence within 2 years.
- The Company entered into an MOU with Kolsori Nickel (SI) Ltd (KNL). KNL holds PL 05/19, which contains part of the Kolosori nickel project that is to the east of the Jejevo Nickel Project on Isabel Island. The exclusivity period for the MOU was extended to 30 September 2020.

Lorena Gold Project:

- Malachite previously issued a Dispute Notice to its joint venture partners regarding numerous matters including past joint venture expenditures and information regarding an approved program and budget in respect of ongoing operations. Subsequent to the quarter this dispute was resolved.



Solomon Islands Nickel

JEJEVO NICKEL PROJECT

Malachite executed a subscription agreement to acquire up to 15% of Sunshine Minerals Limited (“Sunshine”), a private company incorporated in the Solomon Islands. Sunshine owns 80% of Sunshine Nickel which holds PL 01/18 containing the Jejevo Nickel Project located on the south coast of Santa Isabel Island. The remaining 20% of Sunshine Nickel is owned by local land owners.

During the quarter the Company met its total expenditure commitments and has now earned a 15% equity interest in Sunshine.

The Jejevo Nickel Project is an advanced stage direct shipping ore nickel laterite project with excellent potential for development. The project was previously drilled in 2013 and the initial objective is to do sufficient work to confirm a 2012 JORC Resource at the earliest opportunity.

The Jejevo Nickel Project has a number of positive aspects including its close proximity to the coast, no processing requirements, low capital route to direct shipping ore production and local landowner support. It is envisaged that mining of the project could potentially commence within 2 years.

On 15 July 2020 the Company announced to the ASX that it had signed a Term Sheet to acquire the remaining 85% interest in Sunshine Mineral Limited that it does not already own.

Key Terms of the Term Sheet to acquire Sunshine:

The key terms of the proposed acquisition of Sunshine are summarised below:

- a) Payment of \$1,000,000 by the issue of up to 12,500,000 fully paid ordinary shares in Malachite at a deemed issue price of \$0.08 (Upfront Consideration Shares);
- b) Payment of \$1,300,000 (less any debts not disclosed to Malachite in the Term Sheet) by the issue of up to 16,250,000 fully paid ordinary shares in Malachite at a deemed issued price of \$0.08 upon the valid application for a mining lease for PL 01-18 being approved by the Mines Department (Deferred Consideration Shares);
- c) All Malachite shares issued to the vendors to be subject to voluntary escrow arrangements for a 12 month escrow period.

The proposed acquisition is subject to the following conditions precedent:

- The parties to enter into a formal share sale agreement;
- Malachite completing a minimum \$300,000 equity capital raising;

Malachite will seek shareholder and any necessary regulatory approvals for the proposed acquisition of Sunshine.

KOLOSORI NICKEL PROJECT

Malachite has entered into a memorandum of understanding (MOU) with Kolosori Nickel (SI) Limited (KNL). KNL holds PL 05/19, which holds the main part of the Kolosori Nickel Project which is also on Isabel Island in the Solomon Islands. PL 05/19 is to the east of the Jejevo tenement on Isabel Island. Under the MOU, Malachite has exclusivity to carry out due diligence and consider a transaction with KNL. Malachite is undertaking due diligence on this project. The resource at Kolosori is at a similar



stage to that at Jejevo and if commercial terms are resolved with KNL the initial objective would be to carry out sufficient work to confirm a 2012 JORC Resource at the earliest opportunity.

During the quarter the exclusivity period of the MOU was extended to 30 September 2020 due in part to account for COVID-19 travel restrictions and other related issues.

IMPACT OF COVID-19 ON ACTIVITIES

Malachite has also considered the impact of COVID-19 on its activities. Given the restrictions on travel internationally and mindful of the spread of the virus within the local communities, the Company will focus on desk top work in the short term and will consider field activities where prudent.

Sunshine has engaged a local geologist who is currently digitising the known exploration data for both the Jejevo and the Kolosori tenements. Once completed this will be reviewed and assessed by a recognised geological consultant group who are experienced in laterite nickel resources and will provide a recommendation as to the next steps in order to classify the resource as a 2012 JORC Resource. Future work required in the short can be carried out by the local staff.





Lorena Gold Project

MLs 7147, 90192 – 90196

The Company's Lorena Gold Project ("Lorena Project") is located about 15km east of Cloncurry in northwest Queensland.

The Project is a joint venture between Malachite 55%, Cloncurry Gold Recovery Management Pty Ltd ("CGR") 30% and Ore Processing Services (OPS) 15%. Malachite's interest in the Lorena Project is held by its wholly-owned subsidiary, Volga Elderberry Pty Ltd ("Volga").

On 28 July 2020, the Company announced to the ASX that it has entered into a Deed of Release to resolve the long running dispute in respect of the Lorena Gold Project ("Lorena" or "Lorena Project") on commercial terms satisfactory to Malachite.

Background

The Mining Licence and one exploration licence in respect of the Lorena Project are held by Volga.

As previously reported operational performance at the Lorena Project has been well below expectations and, in February 2019, Volga issued a Dispute Notice to the other joint venture parties in accordance with the terms of the Joint Venture Deed dealing with numerous matters, which principally related to achieving a reconciliation of historical joint venture expenditure, the conduct of the joint venture and Malachite's contribution to certain joint venture expenditure.

Also as previously reported, Malachite had received notice on behalf of OPS requiring payment of an outstanding loan amount (being \$574,342.49 as at 20 February 2019).

Resolution of Dispute

Key elements of the dispute resolution agreement include:

- Malachite has entered into a Share Sale Agreement (Agreement) with Lorena Gold Mine Pty Ltd (previously and Ore Processing Services Pty Ltd (OPS). Under the Agreement Lorena Gold Mine Pty Ltd will acquire 100% of the issued capital of Volga. The Deed of Release is conditional on the Share Sale Agreement completing;
- Malachite has received an initial payment of \$50,000 and will receive a further \$130,000 within 90 days subject to agreed adjustments;
- Conditions precedent include Malachite entering into an agreement to receive a 2% Net Smelter Return on gold produced from future underground operations at Lorena;
- The Lorena joint venture parties have entered into a Deed of Release in respect of obligations and liabilities arising out of the Lorena Gold Project; and
- Malachite has also entered into a Deed of Debt Forgiveness with Ore Processing Services Pty Ltd pursuant to which outstanding loan liabilities to OPS have been forgiven. The loan amount that was forgiven by OPS is \$637,342.47 at the time the Deed of Debt Forgiveness was entered.

Malachite will seek shareholder and any necessary regulatory approvals for the proposed sale of Volga.

Malachite will retain 100% of EPM 18908 which holds the Bloodwood copper/gold and Lady Mary gold prospects where encouraging exploration was previously undertaken by the Company. The Company is now able to focus on this tenement given an agreement has been entered into to resolve the dispute.



Corporate

On 16 April 2020 the Company held a general meeting of shareholders. All of the resolutions set out in the Notice of Meeting were passed. As a result the principal amounts relating to the Series A and D convertible notes and other liabilities were converted into ordinary shares and Series E Converting Notes were issued in respect of the unpaid interest due on the Series A and D convertible notes.

In addition a 100 into 1 consolidation of capital was approved. As a result of the consolidation the Company has 68,022,604 shares and 12,158 Series E Converting Notes currently on issue.

The key terms of the Series E Converting Notes are as follows:

- issue price of \$100 each
- maturity date of 31 March 2021;
- interest rate of 4% per annum; and
- conversion price of the higher of the 30-day VWAP prior to the conversion date or \$0.035 each.

Malachite has spoken to a number of potential funding parties and without exception they have indicated that the Series E Converting Notes should be converted in some way to simplify the capital structure of the Company prior to any future capital raisings.

The Company is pleased to report that it has recently negotiated with all the Series E Converting Noteholders to convert their Converting Notes at \$0.08 per share on or before 31 July 2020, which is at a premium to the 30 day VWAP. The Company thanks the Series E Converting Noteholders for their support.

Tenements

Project	Tenement Number
QUEENSLAND	
<i>Lorena (55%) open cut</i>	ML 7147, ML 90192 , ML90193, ML 90194, ML 90195, ML 90196 (held by Volga and subsequent to the quarter these were sold subject to a deed of release and share sale agreement)
<i>Lorena (70%) resources beneath the open cut</i>	
<i>Lorena EPMs (100%)</i>	EPM 18189 (held by Volga and subsequent to the quarter this EPM was sold subject to a deed of release and share sale agreement) EPM 18908 (held and retained by Malachite)

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

Level 4, 283 George St Sydney NSW 2000
Tel. (02) 9251 0032 www.malachite.com.au

Rule 5.5

Appendix 5B

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Name of entity

Malachite Resources Limited

ACN or ARBN

075 613 268

Quarter ended ("current quarter")

30-Jun-20

Consolidated statement of cash flows	Current quarter \$A'000	Year to date 12 months \$A'000
1. Cash flows related to operating activities		
1.1 Receipts from customers*		
1.2 Payments for		
(a) exploration and evaluation	(2)	(26)
(b) development		
(c) production		
(d) staff costs	-	(1)
(e) administration and corporate costs	(19)	(275)
1.3 Dividends received (see note 3)		
1.4 Interest received	7	11
1.5 Interest and other costs of finance paid		(190)
1.6 Income taxes paid (received)		
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)		
1.9 Net cash from / (used in) operating activities	(14)	(481)

* The Company did not receive any proceeds from the sales of gold or distributions from the Lorena Gold Project Joint Venture during the quarter. During the period, the Company was in dispute with its joint venture partners in relation to numerous issues relating to the Lorena Gold Project.

2. Cash flows related to investing activities		
2.1 Payments to acquire:		
(a) entities		
(b) tenements		
(c) property, plant and equipment		
(d) exploration & evaluation (if capitalised)		
(e) investments		
(f) other non-current assets	(45)	(228)
2.2 Proceeds from the disposal of:		
(a) entities		
(b) tenements		
(c) property, plant and equipment		
(d) investments		
(e) other non-current assets		
2.3 Cash flows from loans to other entities		
2.4 Dividends received (see note 3)		
2.5 Other (provide details if material)		
2.6 Net cash from / (used in) investing activities	(45)	(228)

Mining exploration entity or oil and gas exploration entity quarterly report

Consolidated statement of cash flows	Current quarter \$A'000	Year to date 12 months \$A'000
3. Cash flows related to financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)		
3.2 Proceeds from issue of convertible debt securities		
3.3 Proceeds from exercise of options		
3.4 Transaction costs related to issues of equity securities or convertible debt securities		
3.5 Proceeds from borrowings	60	80
3.6 Repayment of borrowings	-	(37)
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	60	43

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	29	696
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(14)	(481)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(45)	(228)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	60	43
4.5 Effect of movement in exchange rates on cash held		
4.6 Cash and cash equivalents at end of period	30	30

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	30	29
5.2 Call deposits		
5.3 Bank overdrafts		
5.4 Other (provide details)		
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	30	29

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
6.2 Aggregate amount of loans to the parties included in item 2

Current quarter \$A'000
0
0

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

7. Financing facilities

Note: the term "facility" includes all forms of financing arrangement available to the entity
Add notes as necessary for an understanding of the position.

- 7.1 Loan facilities
OPS Loan*
- 7.2 Credit standby arrangements
- 7.3 Other - Converting Notes **
- 7.4 **Total financing facilities**
- 7.5 **Unused financing facilities**

Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
145	145
500	500
1,216	1,216
1,861	1,861
-	-

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

Facility description	Lender	Interest rate (pa)	Maturity Date		
Loan facilities	Key Management Personnel	\$65,000	12%	31 October 2020	unsecured
	Key Management Personnel	\$70,000	10%	31 October 2020	unsecured
	Other	\$10,000	10%	matured	unsecured
OPS Loan*	Ore Processing Services	\$500,000	9%	matured	unsecured
Converting E notes**	Note holders			31 March 2021	unsecured

* This loan will be forgiven as part of the resolution of the Lorena JV dispute, which was announced July 2020 and is subject to a number of conditions precedent

** In April 2020 as approved by shareholders, converting notes convert into shares with maturity of 31 March 2021

Mining exploration entity or oil and gas exploration entity quarterly report

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(14)
8.2 Capitalised exploration & evaluation (Item 2.1(d))	-
8.3 Total relevant outgoings (Item 8.1 + Item 8.2)	(14)
8.4 Cash and cash equivalents at quarter end (Item 4.6)	30
8.5 Unused financing funding (Item 7.5)	-
8.6 Total available funding (Item 8.4 + Item 8.5)	30
8.7 Estimated quarters of funding available (Item 8.6 divided by Item 8.3)	2.1

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

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

Answer:
Yes

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer:
The Company will fund its operations from the satisfactory settlement of the Lorena JV dispute, which was announced in July 2020. The Company proposes to raise cash from a new capital raising with the support of new investors and/or existing shareholders or a combination of each of these elements. The company believes that it will be successful in raising these funds subject to satisfactory investment market conditions. The Board has identified a number of parties who have expressed some interest in investing in the Company going forward.

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer:
Yes, the entity expects to be able to continue its operations and to meet its business objectives on the basis that it has achieved a satisfactory settlement of the dispute in relation to the Lorena project and that it will be able to raise new funds to support the further and ongoing investments that the Company has made in nickel assets in the Solomon Islands.

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.

Date: 31 July 2020

Authorised by: By the board
(Name of body or officer authorising release - see note 4)

Notes

- 1 This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
- 2 If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
- 3 Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
- 4 If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee - eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
- 5 If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and give a true and fair value of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.