

# malachite resources

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## QUARTERLY REPORT for the period ending 30 September 2018

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### 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

#### Head Office

Malachite Resources Limited

Level 4

283 George St

SYDNEY NSW 2000

T: +61 (0)2 9251 0032

E: [info@malachite.com.au](mailto:info@malachite.com.au)

W: [www.malachite.com.au](http://www.malachite.com.au)

31 October 2018

- 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 38,472 tonnes were processed at a grade of 3.34g/t Au with an average recovery of 74% to produce 3,048 ozs of gold; this was lower than project forecasts.
  - There were a number of processing challenges treating transitional ore (sulphides and oxides) which impacted on gold production. The processing plant is designed to treat sulphide material and so metallurgical recovery to date while processing transitional ore has been lower than the forecast 80% to 85%.
  - Mining has recommenced with a focus on the extraction of sulphide ore from the pit to ensure that higher grade ore and higher metallurgical recoveries are achieved. Based on the reserve estimate there was expected to be approximately 170,000 tonnes at 6.0 g/t Au remaining in the pit when mining recommenced.
  - The depth of transitional ore was greater than expected and the processing of sulphide ore did not commence until mid-October. The Company is waiting for recent operating results to see how the processing plant is performing.
  - In late October, exploration commenced to test for extensions of the Lorena deposit at depth with an initial 3 holes. The Company has a 70% joint venture interest in any resources below the open cut.



## Lorena Gold Project

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

The Company's Lorena Gold Project ("Project") is located about 15km east of Cloncurry in northwest Queensland. During the quarter production was focussed on processing material from the ROM pad, which had been built up over previous periods due to delays in plant delivery and operational challenges associated with commissioning of the processing plant.

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:

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

CGR and OPS are currently funding the joint venture's ongoing working capital requirements in relation to the project in proportion to each joint venture party's interest on an interest bearing loan basis.

Upon completion of the Stage 1 Open Cut operation, Malachite will retain a 70% interest in any additional resources within the Lorena Gold Project mining leases.

### Mining

The JV manager recommenced mining in August to provide sulphide feed ore for the processing plant. During the quarter, 5,776 tonnes of ore was mined at an average grade of 6.6g/t Au with 66,259 m3 of waste.

With the installation of the final stage of the HDPE liner, the tailings dam is now capable of holding tailings for the processing of the remaining ore from the open cut.

### Production

During the quarter, as shown in Table 1, 38,472 tonnes were processed at a grade of 3.3g/t Au with an average recovery of 74% to produce 3,048 ozs of gold. The head grade, the metallurgical recoveries and plant usage were all lower than forecast. This has been attributed by the JV manager to a number of processing challenges with treating transitional ore (sulphides and oxides). Production figures for September were expected to improve from the previous two months as a result of improvements to plant operations during July and August, however this did not materialise. Metallurgical recoveries in excess of 80% are expected when the operation moves into processing of sulphide ore.



		July	Aug	Sept	Total/Average	Forecast
Crushed tonnes	tonnes	18,606	14,925	13,768	47,299	
Tonnes Processed	tonnes	15,453	10,225	12,794	38,472	45,000
Feed rate	tonnes/hr	27	24	28	26.0	28
Mill run time	hrs	576	435	469	1,480	
Gold head grade	g/t	3.21	3.43	3.41	3.33	4.00
Gold recovery	%	71%	76%	76%	74%	75%
Gold production	oz	1128	855	1065	3,048	4,300
Gold poured	oz	799	1,111	563	2,473	
Gold in circuit at month end	oz	1016	760	1262		

**Table 1 - Processing physicals for the quarter.**

Based on the reserve estimate as at 30 June 2018, there was an estimated 170,000 tonnes of ore at 6.0g/t Au (refer ASX announcement 26 October 2018). This incorporates the results of the exploration carried out earlier this year. Mining of the sulphide ore from the open cut is expected to be completed within four months.

At the end of the September there was approximately 90,000 tonnes of ore grading 3.3g/t Au on the ROM pad. The grade on this ore on the ROM pad was been recently adjusted down from 3.9g/t Au following a review by the JV manager in August. It is contemplated that this remaining lower grade ore will be processed after all of the higher grade sulphide ore has been mined and processed. The Joint Venture manager believes that recoveries from this material can be improved with modifications to the plant configuration. It is proposed that that these plant modifications will be undertaken once processing of the sulphide ore has been completed. Processing of ore from the open cut is expected to continue for the next twelve to thirteen months at a rate of around 18,000 to 20,000 tonnes per month.

The depth of transitional ore was greater than expected and accordingly the processing of sulphide ore did not commence until mid-October. Given the variability in recovery and throughput on a weekly basis, the Company is waiting on more recent operating results to review the ore grade reconciliation from the pit and to assess the processing plant performance.



Photo – gold bar poured at Lorena

During the quarter, Project processing costs and admin costs totalled \$4.9m with mining costs of \$1.4m. Gold sales for the period were 1,961 ozs of gold for revenue of \$3.25m. The working capital for the quarter has been funded by CGR.

The Company's loan balance with CGR has increased to \$11.7 million at 30 September 2018 from \$9.4 million as reported at 30 June 2018. As stated previously the Company is reserving its right to a



proportion of the processing and commissioning expenses as there is uncertainty as to whether some of these expenses should have been classified as construction costs.

Given the performance of the operation to date, the Company is very mindful of the obligation to repay this working capital loan to CGR from project cash flows prior to distributions to joint venture parties.

A Joint Venture Party meeting is scheduled for early November to review the recent operating results and the budget for the remainder of the open cut.

### **Exploration – Lorena Deeps Drilling**

A drilling program was designed with approximately 8 to 10 holes to test for extensions of the orebody at depth based on previous drilling (LMRD092 which reported 6m @ 10.90g/t Au from 224m downhole) and downhole geophysics. The Company envisaged that this program could be carried out by an RC rig capable of drilling up to 500m in depth. The Company had arranged for this rig to be available in October but due to mechanical repairs the rig was unavailable and it was uncertain as to when it would be in the region. Nevertheless, the Company decided to carry out the initial part of the drill program with at least 3 priority holes using a standard RC rig (capable of drilling 120m to 180m) and then completing the holes with diamond drilling. Drilling commenced last week with first results not available for another three weeks or so. Further exploration will follow on depending on the results of this initial program.

### **Corporate**

In September and October, the Company issued a total of 52.5 new Series D Secured Convertible Notes (“Notes”) raising a total of \$2,625,000.

These funds will be applied by the Company as follows:

- Predominantly, to bring forward the extraction of sulphide ore from the open pit at the Lorena Gold Project;
- Repayment of some Series B Convertible Notes which have reached maturity;
- Lorena Gold Project: Lorena Deeps Drilling to test for extensions of the Lorena deposit at depth; and
- General working capital.

The key terms of the Notes

- Notes were issued at an issue price of \$50,000 each
- Notes are Convertible into ordinary shares in the capital of the Company at the election of the Noteholder at any time after 4 months from their respective issue dates
- The interest rate payable on Notes 12.00% increasing to 17.5% if issue of notes and convertibility not approved by shareholders within 3 months of date of issue;
- Noteholders can elect to be paid interest in cash or Shares. If the payment of interest is satisfied by the issue of Shares, the issue price of such Shares shall be an amount equal to 80% of the 30 Day VWAP for the Shares, for the last 30 cumulative trading days immediately prior to the date the interest is payable;
- Notes are to be secured against gold produced from Lorena Gold Project
- Noteholders have agreed that the security is to be shared with Series A Convertible noteholders until they are converted or redeemed;
- The Company has no obligation to convert any Notes into shares or to otherwise issue shares, until all requisite regulatory and shareholder approvals (including, without limitation, approvals required under the ASX Listing Rules and the Corporations Act) are obtained.
- Notes have a Maturity Date of 30 September 2019.



## Tenements

<b>Project</b>	<b>Tenement Number</b>
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

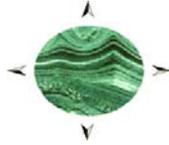
<b>Project</b>	<b>Location</b>	<b>Tenement</b>	<b>MAR Interest</b>
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### Beneficial Interest in Farm-In or Farm-Out Acquired/Disposed of during the Quarter

<b>Project</b>	<b>Location</b>	<b>Tenements</b>	<b>MAR Interest</b>
Tooloom	NSW	EL 6263	100%

## 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

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

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-Sep-18**

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	(9)	(9)
(b) development	(107)	(107)
(c) production		
(d) staff costs	(1)	(1)
(e) administration	(138)	(138)
1.3 Dividends received (see note 3)		
1.4 Interest received	-	
1.5 Interest and other costs of finance paid	(55)	(55)
1.6 Income taxes paid (received)		
1.7 Research and development refunds		
1.8 Other (provide details if material)	5	5
Lorena JV Management Fee	110	110
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(195)</b>	<b>(195)</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:		
Lorena security deposit	15	15
Lorena JV funding of security deposit	-	
<b>2.6 Net cash from / (used in) investing activities</b>	<b>15</b>	<b>15</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	(2)	(2)
3.5 Proceeds from borrowings	2,005	2,005
3.6 Repayment of borrowings	(220)	(220)
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>1,783</b>	<b>1,783</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	71	71
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(195)	(195)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	15	15
4.4 Net cash from / (used in) financing activities (item 3.10 above)	1,783	1,783
4.5 Effect of movement in exchange rates on cash held		
<b>4.6 Cash and cash equivalents at end of period</b>	<b>1,674</b>	<b>1,674</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	1,674	71
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>1,674</b>	<b>71</b>

**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
205	205
500	500
4,928	4,928

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	12%	secured

9. Estimated cash outflows for next quarter *	\$A'000
9.1 Exploration and evaluation	300
9.2 Development	
9.3 Production	
9.4 Staff costs	
9.5 Administration and corporate costs	150
9.6 Other (provide details if material)	150
con note interest payments	
9.7 Total estimated cash outflows	600

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	EL 6263		100%	0%
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 2018

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.