



malachite
resources



Annual Report 2016

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CHAIRMAN'S REVIEW

The development of Malachite's Lorena Gold Project near Cloncurry in northwest Queensland remained the focus for the Company over the 2015/16 year. However the Company has experienced an extended period of difficulties as a direct result of a previous joint venture partner failing to meet its obligations. This situation has been extremely frustrating for the Board and management and obviously unsatisfactory from a shareholder point of view.

On a more positive note, earlier this year Malachite announced that it had entered into a heads of agreement with Ore Processing Services Pty Ltd ("OPS") to supply, commission and operate a mineral processing plant. In September of this year OPS advised that it had entered into an agreement to acquire the plant and equipment previously constructed on the Lorena site ("Lorena Concentrator Plant"). OPS proposes to complete the Lorena Concentrator Plant and supply a modular CIL circuit to provide a complete mineral processing plant capable of producing gold dore on site. Malachite believes that this is the best path to achieving the earliest possible and most cost effective gold production from the Lorena project.

Malachite is currently advancing its financing requirements to fund preparatory site works in the order of \$2.5 million and any additional working capital that may be required to bring the project into production.

In addition, at the time of writing this report the Company had launched a Share Purchase Plan to assist the Company with working capital while the financing referred to above is finalised so that it can meet corporate running costs and continue to advance the development of the Lorena project.

During the year the Company reached agreement with existing Convertible Noteholders to extend the maturity date on their notes to July 2017. The Board appreciates the ongoing support of its shareholders and its convertible noteholders.

The Board anticipates a re-rating of the Company's share price once a clear and fully financed path for gold production at the Lorena project has been established. In the longer term, and subject to confirmatory drilling, it is anticipated that the Lorena project may be expanded to include the gold resource potential at depth and other gold processing opportunities which also exist. If successful, these additional prospects are expected to enhance the value of the Company's interest in the Lorena project for the benefit of existing shareholders.

Looking forward, our focus will remain on achieving gold production from Lorena and ensuring that the Company is adequately capitalised to achieve its objectives for the future.

I would like to express my appreciation for the continued dedication of Malachite's Board, management and staff in difficult times as we move towards the Company's long stated goal of achieving producer status. In particular, I would also like to thank our shareholders and those financial backers who have continued to support the Company.

A handwritten signature in dark ink, appearing to read 'Terry Cuthbertson', with a stylized, elongated final stroke.

Terry Cuthbertson
Chairman

REVIEW OF OPERATIONS

During the Period the Group's main business activity has been focused on advancing the development of the Lorena Gold Project ("Lorena") near Cloncurry in northwest Queensland.

LORENA

Lorena Gold Project - MLs 7147, 90192 to 90196

The Group had an agreement with BCD Resources NL ("BCD") whereby BCD could earn a 50% joint venture interest in the Group's Lorena Gold Project ("Lorena") by solely funding the development of Lorena to the point of commercial production.

Unfortunately, in January 2015, BCD put the development of Lorena on hold and by April 2015, BCD was in receivership and voluntary administrators had been appointed.

During the Period, in order to advance Lorena, the Group held negotiations with the Receivers and Managers of BCD to settle the partly constructed gold concentrator plant on the Lorena site. These negotiations were protracted and an agreement could not be reached.

In order to break this impasse, in March 2016, the Group entered into a non-binding Heads of Agreement ("Malachite Agreement") with Ore Processing Services Pty Ltd ("OPS") to establish and operate a modular mineral processing plant at Lorena, which did not require the use of the partly constructed gold concentrate plant constructed by BCD.

Under the Malachite Agreement, OPS is to take responsibility for the supply, commissioning and operation of the whole mineral processing plant, which is to be constructed as modular units to produce gold doré on site. This 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;
- The Group raising funds for \$2.5m of preparatory site work, which includes necessary environmental bonds, tailings dam construction, initial mining costs, water supply and preparatory ground works for the OPS modules; and
- OPS raising funding for their OPS plant modules;

The key terms of this arrangement are as follows:

- OPS earns a 30% equity interest in the Lorena project once operations commence;
- OPS receives lease fees for the provision of the modular processing plant; and
- OPS earns a management fee of the processing cost of the project.

Further to the Malachite Agreement, on 20 September 2016, the Group announced that it had been advised by OPS that OPS had entered into a binding Heads of Agreement ("MKS Agreement") with MKS Precious Metals (Australia) Pty Ltd ("MKS") to acquire their interest in the plant and equipment constructed by BCD on the Lorena site ("Lorena Concentrator Plant"). MKS is the secured creditor to BCD, which consents to this acquisition and which is conditional on completion of financing amongst other conditions precedent.

When the acquisition by OPS is completed, Malachite and OPS will then have an unfettered opportunity to proceed with the development of Lorena using the Lorena Concentrator Plant. OPS will then be required to both complete the construction of the Lorena Concentrate Plant and supply a modular CIL circuit to provide a complete mineral processing plant capable of producing gold dore on site. The terms of the Malachite Agreement with OPS are essentially unchanged by the arrangement by OPS to acquire the Lorena Concentrate Plant. The Group believes that this is the

best path to achieving the earliest possible and most cost effective gold production from the Lorena project.

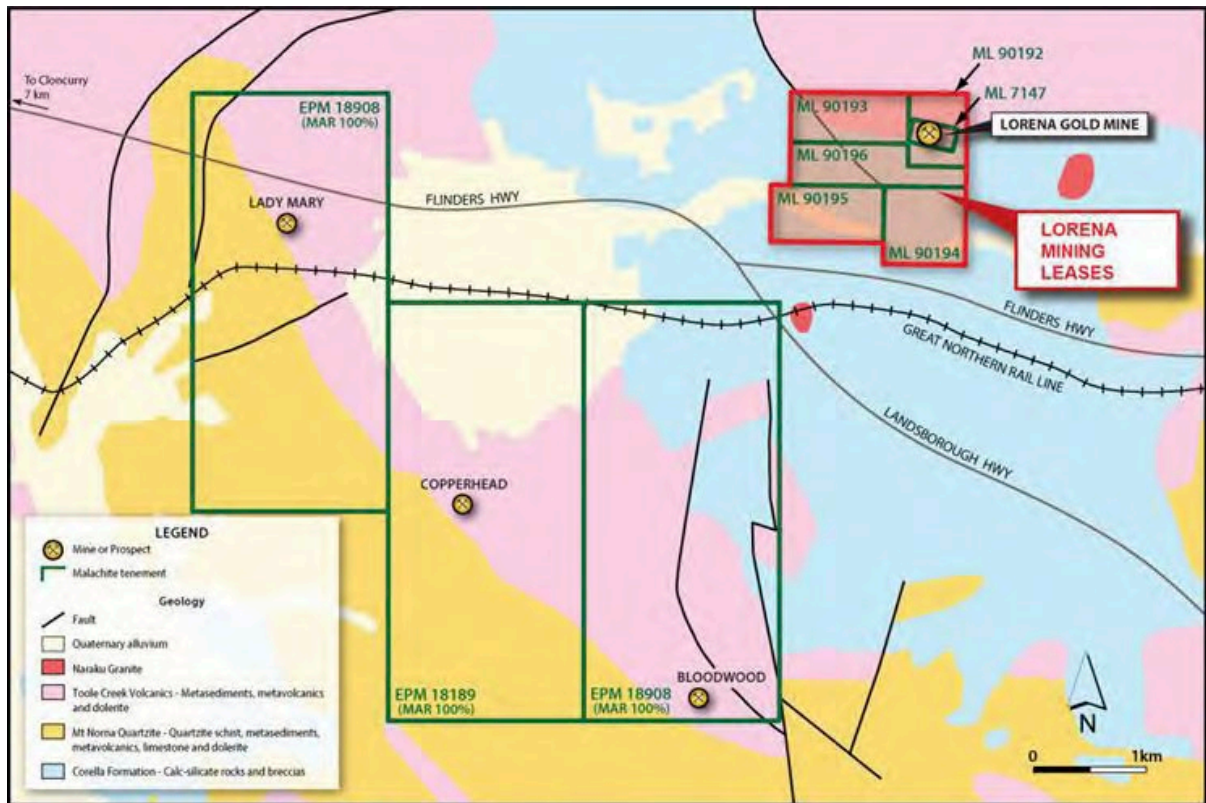


Lorena Concentrator Plant

EPM 18908 (100% Malachite)

The Group carried out a drilling program consisting of eight holes (total 558m), testing the Lady Mary Prospect over a strike length of 400m.

Assays were received for a suite of 323 x 1m drill samples, which were assayed for gold and a suite of accompanying elements. The only intersection of significance was in drill hole LERC04, which assayed 2m @ 3.20g/t Au and 1.90% Cu from 12m to 14m. All other drill holes returned low gold values (generally <0.05g/t Au) except LERC05 which intersected 1m @ 0.45g/t Au from 15m to 16m.



Lorena Gold project located 15km east of Cloncurry, Qld

The lack of mineralized intersections in the other six drill holes suggests that the mineralization previously sampled from the dumps surrounding the old pits is sourced from discontinuous pods of mineralization, none of which were intersected in the drill holes.

However, the intersection in drill hole LERC04 is to the east of the line of old pits and the gold-copper soil anomaly, and this position was not tested by any of the other drill holes in this northern section of the prospect. A program of follow-up drilling along strike and down-dip of this intersection is warranted.

OTHER TENEMENTS

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

In May 2015, the Group entered into an agreement with Silver Mines Limited (SVL), an ASX listed company with code SVL, to sell the Conrad Silver Project (Conrad) for \$450,000 in cash, \$125,000 in SVL shares and a 1% net smelter return.

The Group received an initial cash payment of \$50,000 in May 2015 when the original MoU was executed with SVL. During the Period, the Group received a further cash payment of \$400,000 payment together with SVL shares to the value of \$125,000. The Group subsequently sold its SVL shares on market.

Subsequent to the Period, the sale and purchase agreement and royalty agreement were executed and the applications to transfer the Conrad Silver Project titles to SVL were enacted. The Group retains a 1% net smelter return royalty over the Conrad Silver Project.

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

The Group sold non-core MLs 1237, 1238 & 1385 (Tooloom MLs) in northern NSW to Tooloom Creek Pty Limited for cash of \$50,000. Tooloom Creek Pty Limited is associated with Tooloom Gold Pty Limited who had the right to mine for alluvial gold on the Tooloom MLs.

The transfer of the Tooloom MLs was completed in June 2016 and the Group was entitled to recover its environmental bond of \$50,000.

The Group retains EL6263, which holds the Phoenix gold prospect. Further work on this prospect is expected once Lorena is developed.

TENEMENTS

Project	Tenement Number	Interest
QUEENSLAND		
<i>Lorena</i>	ML 7147, ML 90192 , ML90193, ML 90194, ML 90195, ML 90196 EPM 18189, EPM 18908	100%
NEW SOUTH WALES		
<i>Conrad (sold and subject to transfer to Silver Mines Limited)</i>	ML 5992, ML 6040, ML 6041, EPL 1050, EL 5977	
NEW SOUTH WALES		
<i>Tooloom</i>	EL 6263	100%

COMPETENT PERSON STATEMENT:

The exploration results relating to EPM 18908 was prepared in accordance with the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' and is extracted from the report entitled Assays Received For Lady Mary Drilling Program created and released to the ASX on 17 December 2015 (which contained a separate Competent Person Statement by Mr Russell Meares) and is available to view on the Company's website: www.malachite.com.au. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Mineral Resources or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

RESOURCE STATEMENT

The resource estimation for the Lorena Gold Project is presented in the two tables below; the first being the resource estimation for A Lode and the second for B Lode.

Table 1 – Resource Estimations for A Lode

Cut-off Au g/t	Measured			Indicated			Total		
	Tonnes	Au g/t	Au Oz	Tonnes	Au g/t	Au Oz	Tonnes	Au g/t	Au Oz
5.0	34,700	11.7	13,100	57,000	15.6	28,600	91,700	14.2	41,700
2.0	68,700	7.6	16,700	110,800	9.5	34,000	179,500	8.8	50,700
1.0	88,300	6.2	17,600	165,900	6.9	36,600	254,200	6.6	54,200
0.5	105,800	5.3	18,000	228,200	5.2	38,000	334,000	5.2	56,000
0	156,100	3.7	18,400	513,100	2.4	39,500	669,200	2.7	57,900

Table 2 – Resource Estimations for B Lode

Cut-off Au g/t	Indicated			Inferred			Total		
	Tonnes	Au g/t	Au Oz	Tonnes	Au g/t	Au Oz	Tonnes	Au g/t	Au Oz
5.0	2,400	9.7	800	10,900	11.9	4,200	13,300	11.5	5,000
2.0	3,100	8.3	800	20,600	7.7	5,100	23,700	7.8	5,900
1.0	3,800	7.1	900	30,800	5.6	5,600	34,600	5.8	6,400
0.5	8,400	3.6	1,000	45,000	4.1	5,900	53,400	4.0	6,900
0	14,200	2.2	1,000	117,200	1.6	6,200	131,400	1.7	7,200

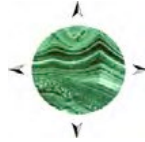
Lorena has a total JORC Mineral Resource in the Measured, Indicated and Inferred categories containing approximately 56,600oz of gold at a 2g/t cut-off grade. This is made up by a resource of 179,500t at 8.8g/t Au containing 50,700oz of gold in the A Lode (16,700oz of gold in the Measured category and 34,000oz of gold in the Indicated category), and a resource of 23,700t at 7.8g/t Au containing 5,900oz of gold in the B Lode (800oz of gold in the Indicated category and 5,100oz of gold in the Inferred category). These resources are within a potential open pit mine and are open at depth. The gold-bearing mineralisation is principally of massive and stringer sulphide type and copper-gold mineralisation occurs in conjunction with the gold mineralisation.

COMPETENT PERSON STATEMENT:

The information in this report that relates to the Lorena Gold Project resource was prepared in accordance with the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' and is extracted from the report entitled Resource Update at Lorena created and released to the ASX on 27 January 2012 (which contained a separate Competent Person Statement by Geos Mining) and is available to view on the Company's website: www.malachite.com.au. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Mineral Resources or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

MALACHITE RESOURCES LIMITED

A.B.N. 86 075 613 268



**CONSOLIDATED FINANCIAL REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016**

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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 29 September 2016. 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 2016**

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 2016.

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

Non-executive Chairman, Age 66

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. He is the Non-executive Chairman of ASX listed MNF Group Limited, Australian Whisky Holdings Limited, Austpac Resources NL, South American Iron and Steel Corporation Limited and Mint Payments Limited. He is a Non-executive Director of iSentric Limited.

James Dean ACIP

Non-executive Director, Age 56

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 56

Andrew 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 Securities from 2003 to 2016 where he has successfully completed numerous capital raisings.

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	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
Mr T Cuthbertson	11	11	-	-	-	-
Mr J Dean	11	11	2	2	-	-
Mr A McMillan	11	11	2	2	-	-

DIRECTORS' INTERESTS

As at the date of this report.

	Ordinary Shares		Options		Class B Options	
	Direct	Indirect	Direct	Indirect	Direct	Indirect
Mr T Cuthbertson	-	8,984,383	-	-	-	-
Mr J Dean	25,771,197	13,936,508	-	-	-	-
Mr A McMillan	4,130,947	-	-	-	-	-

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:

	2016	2015
	\$	\$
Loss after income tax	(1,567,069)	(14,396,748)

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 2016 (2015: Nil).

REVIEW OF RESULTS AND OPERATIONS

During the Period the Group's main business activity has been focused on advancing the development of the Lorena Gold Project ("Lorena") near Cloncurry in northwest Queensland.

LORENA

Lorena Gold Project - MLs 7147, 90192 to 90196

In 2014, BCD Resources NL (BCD) commenced the development of Lorena in accordance with an agreement with the Group whereby BCD could earn a 50% joint venture interest in Lorena by solely funding the development of the project to the point of commercial production.

In January 2015, BCD put the development of Lorena on hold and by April 2015, BCD was in receivership and voluntary administrators had been appointed.

During the Period, in order to advance Lorena, the Group held negotiations with the Receivers and Managers of BCD to settle the partly constructed plant on the Lorena site. These negotiations were protracted and an agreement could not be reached.

In March 2016, the Group entered into a non-binding Heads of Agreement (Malachite Agreement) with Ore Processing Services Pty Ltd (OPS) to establish and operate a modular mineral processing plant at Lorena, which did not require the use of the partly constructed plant currently on the site.

Under the Malachite Agreement, OPS is to take responsibility for the supply, commissioning and operation of the whole mineral processing plant, which is to be constructed as modular units to produce gold doré on site.

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;
- The Group raising funds for \$2.5m of preparatory site work;
- OPS raising funding for their OPS plant modules;

The key terms of the arrangement are as follows:

- OPS earns a 30% equity interest in the Lorena project once operations commence.
- OPS receives lease fees for the provision of the modular processing plant.
- OPS earns a management fee of the processing cost of the project.

MALACHITE RESOURCES LIMITED
DIRECTORS' REPORT (CONTINUED)

REVIEW OF RESULTS AND OPERATIONS (CONTINUED)

On 20 September 2016 the Group announced that it had been advised by OPS that it has entered into a binding Heads of Agreement (MKS Agreement) to acquire an interest in the plant and equipment previously constructed on the Lorena Gold Project site ("Lorena Concentrator Plant"). When this acquisition is completed OPS will then be required to both complete the construction of the Lorena Concentrate Plant and supply a modular CIL circuit to provide a complete mineral processing plant capable of producing gold dore on site. The terms of the Malachite Agreement with OPS are essentially unchanged by the arrangement by OPS to acquire the Lorena Concentrate Plant. The Group believes that this is the best path to achieving the earliest possible and most cost effective gold production from the Lorena project.

EPM 18908 (100% Malachite)

The Group carried out a drilling program consisting of eight holes (total 558m), testing the Lady Mary Prospect over a strike length of 400m.

Assays were received for a suite of 323 x 1m drill samples, which were assayed for gold and a suite of accompanying elements. The only intersection of significance was in drill hole LERC04, which assayed 2m @ 3.20g/t Au and 1.90% Cu from 12m to 14m. All other drill holes returned low gold values (generally <0.05g/t Au) except LERC05 which intersected 1m @ 0.45g/t Au from 15m to 16m.

The lack of mineralized intersections in the other six drill holes suggests that the mineralization previously sampled from the dumps surrounding the old pits is sourced from discontinuous pods of mineralization, none of which were intersected in the drill holes.

However, the intersection in drill hole LERC04 is to the east of the line of old pits and the gold-copper soil anomaly, and this position was not tested by any of the other drill holes in this northern section of the prospect. A program of follow-up drilling along strike and down-dip of this intersection is warranted.

OTHER TENEMENTS

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

In May 2015, the Group entered into an agreement with Silver Mines Limited (SVL), an ASX listed company with code SVL, to sell the Conrad Silver Project (Conrad) for \$450,000 in cash, \$125,000 in SVL shares and a 1% net smelter return.

The Group received an initial cash payment of \$50,000 in May 2015 when the original MoU was executed with SVL. During the Period, the Group received a further cash payment of \$400,000 payment together with 77,056,191 SVL shares to the value of \$125,000.

The Group sold its 77,056,191 SVL shares on market and received cash of \$99,107.

The Group retains a 1% net smelter return royalty over the Conrad Silver Project.

Subsequent to the Period, the sale and purchase agreement and royalty agreement were executed and the applications to transfer the Conrad Silver Project titles were enacted.

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

The Group sold non-core MLs 1237, 1238 & 1385 (Tooloom MLs) in northern NSW to Tooloom Creek Pty Limited for cash of \$50,000. Tooloom Creek Pty Limited is associated with Tooloom Gold Pty Limited who had the right to mine for alluvial gold on the Tooloom MLs.

The transfer of the Tooloom MLs was completed in June 2016 and the Group was entitled to recover its environmental bond of \$50,000.

The Group retains EL6263, which holds the Phoenix gold prospect.

FINANCIAL PERFORMANCE

During the 2016 financial year the consolidated net loss of \$1.567 million (2015: loss of \$14.397 million) reflected:

- Expenses of \$0.494 million incurred for the development of the Lorena Gold Project and on exploration tenements;
- Expenses of \$1.022 million for corporate administration and financing; and
- An impairment charge of \$0.026 million to the carrying value of Conrad Silver Mines and \$0.025 million to the carrying value of Elsmore.

FINANCIAL POSITION

Total equity decreased from \$10.268 million as at 30 June 2015 to \$8.733 million as at 30 June 2016 as a result of a net loss of \$1.567 million and an increase in reserve of \$0.032 million.

At 30 June 2016, the Group had liabilities in respect of Convertible Notes with a total value of \$2.405 million comprising a face value of \$2.15 million and accrued interest of \$0.255 million and unsecured loans held by Key Management Personnel of \$0.275 million.

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.

CASH FLOWS

Cash flows from operating activities was negative \$1.080 million (2015: negative \$1.030 million).

During the period the Group received proceeds of:

- \$0.499 million from the sale of the Conrad Silver project
- \$0.050 million from the sale of the Tooloom MLs
- \$0.275 million from unsecured loans from directors and key management personnel

Cash at 30 June 2016 was \$0.067 million (2015: \$0.361 million).

MALACHITE RESOURCES LIMITED
DIRECTORS' REPORT (CONTINUED)

REVIEW OF RESULTS AND OPERATIONS (CONTINUED)

GOING CONCERN

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

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 \$1,567,069 and negative cash flows from operations of \$1,080,014 during the period ended 30 June 2016.

At 30 June 2016, the Group has net current liabilities amounting to \$3,158,410 (30 June 2015:\$2,798,409) comprising Convertible Notes with a total value of \$2,405,398 (includes accrued interest of \$255,398) and unsecured loans of \$275,000 from Key Management Personnel.

The Group's cash position at balance date was \$66,728 which will not be sufficient to fund the Group's forecast cash outflows from operations for the period to 30 September 2017.

Subsequent to the Period, the Group announced a share purchase plan (SPP) to assist with working capital while the Group progresses a finance facility of at least \$2.5 million in order to meet its conditions precedent under the Malachite Agreement. The recent arrangement by OPS to acquire the existing Lorena Concentrator Plant is a positive step forward to develop the Lorena Gold Project.

The Group relies on the Lorena Gold Project for the continuing viability of the Group and its ability to continue as a going concern and meet its debts and commitments.

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 the following:

- raising equity funding through the SPP in the short term; and
- arranging sufficient facilities of at least \$2.5 million to allow for the development of the Lorena project under the Malachite Agreement with OPS; and
- executing the Malachite Agreement with OPS which requires OPS to raise funding to complete the construction of the Lorena Concentrator Plant and construct and supply a modular CIL circuit to enable gold ore to be produced on site; and
- extending the maturity of the Convertible Notes for a longer period of time 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; and
- achieving positive cash flows from the Lorena Gold Project as soon as practical through the development of the project to commercial production; or.
- entering into a corporate transaction.

The Group has a successful track record over many years of raising new capital from both existing shareholders and strategic investors. The Group has also been successful in extending the term of the Convertible Notes and raising additional funds when required. The Group's discussions with parties to provide financing facilities allowing the Lorena Gold Project to commence production as soon as practical are well advanced and the directors believe they will be able to obtain finance on terms and conditions which are commercially viable for the Group.

The Group is also confident that it will be able to generate cash inflows from its Lorena Gold Project in the near future. 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 2016. 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 2016 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:

2016: Nil (2015: Increase in contributed equity as a result of a share purchase plan by the issue of 107,200,000 shares @\$0.005 per share)

Less: Transaction cost

Net increase in share capital

2016	2015
\$	\$
-	536,000
-	(43,021)
-	492,979

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 20 September 2016 the Group announced that it had been advised by OPS that it has entered into a binding Heads of Agreement (MKS Agreement) to acquire an interest in the plant and equipment previously constructed on the Lorena Gold Project site ("Lorena Concentrator Plant"). When this acquisition is completed OPS will then be required to both complete the construction of the Lorena Concentrate Plant and supply a modular CIL circuit to provide a complete mineral processing plant capable of producing gold dore on site. The terms of the Malachite Agreement with OPS are essentially unchanged by the arrangement by OPS to acquire the Lorena Concentrate Plant. The Group believes that this is the best path to achieving the earliest possible and most cost effective gold production from the Lorena project.

On 29 September 2016, the Group announced a share purchase plan (SPP) to assist with working capital while the Group progresses a finance facility of at least \$2.5 million in order to meet its conditions precedent under the Malachite Agreement. The recent arrangement by OPS to acquire the existing Lorena Concentrator Plant as noted above is a positive step forward to develop the Lorena Gold Project.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Group's main project is the Lorena Gold Project (Lorena).

Subject to funding and approvals, Lorena is expected to be developed in 2017 and the Group expects to generate cash flows from Lorena via an open cut mining operation. 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.

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

	2016	2015
Options on issue beginning of year	-	169,416,504
Employee options issued	-	-
Employee options expired	-	(27,600,000)
Employee options exercised	-	-
Listed options issued	-	-
Listed options expired	-	(141,816,504)
Listed options exercised	-	-
Unlisted options issued	-	-
Unlisted options expired	-	-
Unlisted options exercised	-	-
Options on issue end of year	-	-

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.

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 2016. 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) Share based compensation
- (d) Additional information
- (e) Other transactions of Key Management Personnel
- (f) Equity instrument disclosures relating to Directors and Key Management Personnel

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 2016.

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 30 November 2015.

(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 \$139,621 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.

2016

Directors	Directors fees
Mr T Cuthbertson	60,961
Mr J Dean	39,330
Mr A McMillan	39,330
	<u>139,621</u>

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 2016 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							
	\$	\$							
2016	\$	\$	\$	\$	\$	\$	\$	\$	\$
Directors									
Mr T Cuthbertson	-	60,961	-	-	-	-	-	-	60,961
Mr J Dean	-	39,330	-	-	-	-	-	-	39,330
Mr A McMillan	-	39,330	-	-	-	-	-	-	39,330
Other key management personnel of the group									
Mr G Hiller	113,768	138,682	-	-	-	-	-	-	252,450
	113,768	278,303	-	-	-	-	-	-	392,071
2015									
Directors									
Mr T Cuthbertson	50,000	10,962	-	-	-	-	-	-	60,962
Mr J Dean	25,000	14,330	-	-	-	-	-	-	39,330
Mr A McMillan	25,000	14,330	-	-	-	-	-	-	39,330
Other key management personnel of the group									
			-	-	-	-	-	-	
Mr G Hiller	295,212	(3,612)	-	-	-	-	-	-	291,600
	395,212	36,010	-	-	-	-	-	-	431,222

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.

The Directors have not been paid since the 1st July 2013. All Directors fees have been accrued from 1st July 2013. On 7 April 2015 it was agreed to convert some of this accrual to convertible notes (approved by shareholders at 2015 AGM). Mr McMillan received \$25,000 in cash which he then loaned immediately back to the group through an associated entity. The outstanding accrual for Directors fees is set out in the table below.

Directors fee accrual

	Opening balance	Accrual current year	Closing balance
	2015		2016
Directors			
Mr T Cuthbertson	71,923	60,961	132,884
Mr J Dean	53,660	39,330	92,990
Mr A McMillan	53,660	39,330	92,990
	179,243	139,621	318,864

MALACHITE RESOURCES LIMITED

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (CONTINUED)

(b) Details of remuneration (continued)

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	
	2016	2015	2016	2015	2016	2015
Directors						
Mr T Cuthbertson	100%	100%	-	-	-	-
Mr J Dean	100%	100%	-	-	-	-
Mr A McMillan	100%	100%	-	-	-	-
Other key management personnel of the group						
Mr G Hiller	100%	100%	-	-	-	-

(c) Share based compensation

Employee Option Plan

The Company operates an Employees and Contractors Option Plan ("Plan"). 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.

All options granted to Directors have been approved by Shareholders.

Benefits are payable (or vest) upon expiry of vesting periods.

All options have expired

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 28 to the financial statements.

Directors and Officers	Number of options granted during the year		Number of options vested during the year		Number of options expired or forfeited during the year		Total value of grant yet to vest	
	2016	2015	2016	2015	2016	2015	Minimum	Maximum
							\$	\$
Directors								
Mr T Cuthbertson	-	-	-	-	-	-	-	-
Mr J Dean	-	-	-	-	-	3,000,000	-	-
Mr A McMillan	-	-	-	-	-	-	-	-
Other key management personnel of the group								
Mr G Hiller	-	-	-	-	-	15,000,000	-	-

MALACHITE RESOURCES LIMITED

DIRECTORS' REPORT (CONTINUED)

REMUNERATION REPORT (CONTINUED)

(c) Share based compensation (continued)

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 2016 no options were granted to directors.

(d) 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.

(e) Other transactions of Key Management Personnel

The Group had an opening balance of \$300,000 in unsecured loans from Directors. These \$300,000 of unsecured loans were repaid by the issue of six new Convertible Notes with a face value of \$50,000 each. During the year, the Group received unsecured loans of \$275,000 from Key Management Personnel, which mature 1 October 2017 and have an interest rate of 12% pa with interest paid at maturity.

(f) 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 / acquired	Sold	Other changes	Number held
2016	1 July 2015	during year	during year		30 June 2016
Directors					
Mr T Cuthbertson	8,300,451	683,932	-	-	8,984,383
Mr J Dean	39,536,722	170,983	-	-	39,707,705
Mr A McMillan	3,788,980	341,967	-	-	4,130,947
Other key management personnel					
Mr G Hiller	6,902,309	496,816	-	-	7,399,125

MALACHITE RESOURCES LIMITED

DIRECTORS' REPORT (CONTINUED)

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.

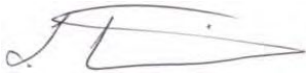
No amounts paid or payable to the auditor for non-audit services provided during the year.

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

A handwritten signature in dark ink, appearing to be 'Terry Cuthbertson', written over a light blue horizontal line.

Terry Cuthbertson
Non-Executive Chairman

Sydney, 29 September 2016



**MALACHITE RESOURCES LIMITED ABN 86 075 613 268
AND CONTROLLED ENTITIES**

**AUDITOR'S INDEPENDENCE DECLARATION UNDER S 307C OF THE
CORPORATIONS ACT 2001
TO THE DIRECTORS OF MALACHITE RESOURCES LIMITED AND
CONTROLLED ENTITIES**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2016 there have been no contraventions of:

- i. the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. any applicable code of professional conduct in relation to the audit.

MNSA Pty Ltd

MNSA Pty Ltd

Mark Schiliro
Director

Sydney

Dated this 29th September 2016

MALACHITE RESOURCES LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 \$	2015 \$
Revenue from continuing operations	5	2,316	18,859
Accounting and audit expense		(53,115)	(88,027)
Corporate expenses		(286,760)	(293,102)
Depreciation and amortisation expense	6	(31,299)	(39,317)
Employee benefits expense		(218,322)	(221,448)
Exploration expenditure expensed		(494,499)	(320,088)
Impairment of exploration assets and other receivables	10, 13	(52,184)	(13,016,191)
Finance costs	6	(377,646)	(377,383)
Occupancy expenses		(55,560)	(60,051)
Gain/(loss) on sale of assets		-	-
Loss before income tax expense		(1,567,069)	(14,396,748)
Income tax expense	7	-	-
Net loss for the year	18	(1,567,069)	(14,396,748)
Other comprehensive income			
Other comprehensive income for the year		-	-
Total comprehensive loss for the year		(1,567,069)	(14,396,748)
Loss for the year is attributable to:			
Owners of the Company		(1,567,069)	(14,396,748)
Total comprehensive loss is attributable to:			
Owners of the Company		(1,567,069)	(14,396,748)
Basic and diluted (loss) per share		Cents per share	Cents per share
(cents per share)	27	(0.14)	(1.41)

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 2016

	Note	2016 \$	2015 \$
CURRENT ASSETS			
Cash and cash equivalents	8	66,728	360,543
Trade and other receivables	9	125,257	98,517
Non-current assets held for sale	10	-	550,000
TOTAL CURRENT ASSETS		<u>191,985</u>	<u>1,009,060</u>
NON-CURRENT ASSETS			
Receivables	11	375,281	375,281
Property, plant and equipment	12	124,563	157,153
Exploration and evaluation expenditure	13	11,475,000	11,525,000
TOTAL NON-CURRENT ASSETS		<u>11,974,844</u>	<u>12,057,434</u>
TOTAL ASSETS		<u>12,166,829</u>	<u>13,066,494</u>
CURRENT LIABILITIES			
Trade and other payables	14	753,012	595,555
Borrowings	15	2,405,398	2,202,854
TOTAL CURRENT LIABILITIES		<u>3,158,410</u>	<u>2,798,409</u>
NON-CURRENT LIABILITIES			
Borrowings	15	275,000	-
TOTAL NON-CURRENT LIABILITIES		<u>275,000</u>	<u>-</u>
TOTAL LIABILITIES		<u>3,433,410</u>	<u>2,798,409</u>
NET ASSETS		<u>8,733,419</u>	<u>10,268,085</u>
EQUITY			
Contributed equity	16	56,544,368	56,544,368
Reserves	17	2,207,581	2,175,178
Accumulated losses	18	(50,018,530)	(48,451,461)
TOTAL EQUITY		<u>8,733,419</u>	<u>10,268,085</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 2016

	Note	Contributed Equity	Reserves	Accumulated losses	Total Equity
Balance as at 1 July 2014		56,051,389	2,104,389	(34,054,713)	24,101,065
Loss for the year		-	-	(14,396,748)	(14,396,748)
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		56,051,389	2,104,389	(48,451,461)	9,704,317
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	16	492,979	-	-	492,979
Employee and non-employee share options	17	-	70,789	-	70,789
Balance as at 30 June 2015		56,544,368	2,175,178	(48,451,461)	10,268,085
Balance as at 1 July 2015		56,544,368	2,175,178	(48,451,461)	10,268,085
Loss for the year		-	-	(1,567,069)	(1,567,069)
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		56,544,368	2,175,178	(50,018,530)	8,701,016
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	16	-	-	-	-
Employee and non-employee share options	17	-	32,403	-	32,403
Balance as at 30 June 2016		56,544,368	2,207,581	(50,018,530)	8,733,419

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

MALACHITE RESOURCES LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 \$	2015 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(391,139)	(509,402)
Exploration and evaluation expenditure		(539,146)	(271,616)
Interest received	5	2,316	2,772
Interest paid		(152,045)	(251,325)
Net cash used in operating activities	26 (c)	(1,080,014)	(1,029,571)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of prospects		549,107	50,000
Refund of security deposits		-	1,800
Payment of security bonds		-	(28,000)
Net cash provided by investing activities		549,107	23,800
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from convertible note		-	500,000
Proceeds from unsecured loan		275,000	225,000
Repayment of hire purchase loan		(20,583)	(22,455)
Proceeds from share issues		-	536,000
Equity raising expenses		(17,325)	(38,344)
Net cash provided by financing activities		237,092	1,200,201
NET (DECREASE)/INCREASE IN CASH HELD		(293,815)	194,430
CASH AT THE BEGINNING OF THE FINANCIAL YEAR		360,543	166,113
CASH AT THE END OF THE FINANCIAL YEAR	26 (a)	66,728	360,543

For details of non-cash operating and investing activities by the Group refer to note 26.

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 2016

1 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 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 2015 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 2015.

Significant Matters relating to the ongoing viability of operations

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 \$1,567,069 and negative cash flows from operations of \$1,080,014 during the period ended 30 June 2016.

At 30 June 2016, the Group has net current liabilities amounting to \$3,158,410 (30 June 2015:\$2,798,409) comprising Convertible Notes with a total value of \$2,405,398 (includes accrued interest of \$255,398) and unsecured loans of \$275,000 from Key Management Personnel.

The Group's cash position at balance date was \$66,728 which will not be sufficient to fund the Group's forecast cash outflows from operations for the period to 30 September 2017.

Subsequent to the Period, the Group announced a share purchase plan (SPP) to assist with working capital while the Group progresses a finance facility of at least \$2.5 million in order to meet its conditions precedent under the Malachite Agreement. The recent arrangement by OPS to acquire the existing Lorena Concentrator Plant is a positive step forward to develop the Lorena Gold Project.

The Group relies on the Lorena Gold Project for the continuing viability of the Group and its ability to continue as a going concern and meet its debts and commitments.

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 the following:

- raising equity funding through the SPP in the short term; and
- arranging sufficient facilities of at least \$2.5 million to allow for the development of the Lorena project under the Malachite Agreement with OPS; and
- executing the Malachite Agreement with OPS which requires OPS to raise funding to complete the construction of the Lorena Concentrator Plant and construct and supply a modular CIL circuit to enable gold dore to be produced on site; and
- extending the maturity of the Convertible Notes for a longer period of time 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; and
- achieving positive cash flows from the Lorena Gold Project as soon as practical through the development of the project to commercial production; or.
- entering into a corporate transaction.

MALACHITE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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

The Group has a successful track record over many years of raising new capital from both existing shareholders and strategic investors. The Group has also been successful in extending the term of the Convertible Notes and raising additional funds when required. The Group's discussions with parties to provide financing facilities allowing the Lorena Gold Project to commence production as soon as practical are well advanced and the directors believe they will be able to obtain finance on terms and conditions which are commercially viable for the Group.

The Group is also confident that it will be able to generate cash inflows from its Lorena Gold Project in the near future. 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 2016. 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.

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 2016 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.

(b) 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.

(c) 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016**

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(c) 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 consolidated statement of financial position 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 28.

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 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.

(d) 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(g)).

(e) 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 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016**

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(f) 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 consolidated statement of financial position.

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.

(g) 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.

(h) 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.

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.

(i) 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016**

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(j) 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 consolidated statement of financial position 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.

Convertible notes

On issuance of the convertible notes, where the conversion is a fixed number of shares for a fixed value there is an equity component, otherwise the whole instrument is 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 consolidated statement of comprehensive income. The convertible note and the derivative are presented as a single number on the consolidated statement of financial position 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.

(k) 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 consolidated statement of financial position (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 designed 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.

(l) 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 22). 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016**

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(m) 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.

(n) 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 consolidated statement of comprehensive income 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(g)).

(o) 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.

(p) 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.

(q) 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.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016**

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(r) 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.

(s) Parent entity financial information

The financial information for the parent entity, Malachite Resources Limited, disclosed in note 29 has been prepared on the same basis as the consolidated financial statements.

(t) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods and have not yet been applied in the Financial Statements. The Company's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 9 Financial Instruments (effective from 1 January 2018)

AASB 9 Financial Instruments addresses revised requirements for the classification, measurement, recognition and de-recognition of financial assets and financial liabilities, including hedge accounting. The standard is not applicable until 1 January 2018 but is available for early adoption. AASB 9 permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. The Directors do not expect there will be any impact on the accounting for the Company's financial assets or liabilities.

(ii) AASB 15: Revenue from Contracts with Customers (applicable to annual reporting periods commencing on or after 1 January 2017)

When effective, this Standard will replace the current accounting requirement applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- 1) identify the contract(s) with a customer;
- 2) identify the performance obligations in the contract(s);
- 3) determine the transaction price;
- 4) allocate the transaction price to the performance obligations in the contract(s); and
- 5) recognise revenue when (or as) the performance obligations are satisfied.

This Standard will require retrospective restatement, as well as enhanced disclosures regarding revenue. There is no impact on the Company's financial statements.

(iii) AASB 16: Leases (applicable to annual reporting periods commencing on or after 1 January 2019).

When effective, this Standard will:

- replace AASB 117 Leases and some lease-related Interpretations;
- require all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases; and
- require new and difference disclosures about leases.

This Standard will require retrospective restatement, as well as new and difference disclosures. There is no impact on the Company's financial statements.

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

MALACHITE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

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:

	2016 \$	2015 \$
Financial assets		
Cash and cash equivalents	66,728	360,543
Trade and other receivables	407,983	402,522
	<u>474,711</u>	<u>763,065</u>
Financial liabilities		
Trade and other payables	753,012	595,555
Borrowings	2,680,398	2,202,854
	<u>3,433,410</u>	<u>2,798,409</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 2016, 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 \$775 lower /higher (2015: change of 100 bps: \$891 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.

(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).

MALACHITE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

2 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

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.

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
2016							
Non-derivatives							
Non-interest bearing	182,674	570,338	-	-	-	753,012	753,012
Fixed rate							
Borrowings (excluding hire purchase)	-	2,766,208	275,000	-	-	3,041,208	2,680,398
Hire purchase liabilities	-	-	-	-	-	-	-
Total Non-derivatives	182,674	3,336,546	275,000	-	-	3,794,220	3,433,410
Consolidated							
2015							
Non-derivatives							
Non-interest bearing	595,555	-	-	-	-	595,555	595,555
Fixed rate							
Borrowings (excluding hire purchase)	2,233,938	-	-	-	-	2,233,938	2,097,270
Hire purchase liabilities	11,227	9,356	-	-	-	20,583	19,605
Total Non-derivatives	2,840,720	9,356	-	-	-	2,850,076	2,712,430

(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.

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 2016

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 consolidated statement of comprehensive income. Key assumptions used to determine the recoverable value of exploration assets are included in note 13.

Carried forward exploration and evaluation expenditures amounting to \$11,475,000 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 28 details the assumptions that have been used in determining the fair value of the options that have been granted.

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:

	2016	2015
	\$	\$
Exploration		
Lorena	11,450,000	11,450,000
Other Tenements	25,000	75,000
	11,475,000	11,525,000

2016	Lorena	Other Tenements	Corporate	Total
Revenue from continuing operations	-	-	2,316	2,316
Accounting and audit expense	-	-	(53,115)	(53,115)
Corporate expenses	-	-	(286,760)	(286,760)
Depreciation and amortisation expense	-	-	(31,299)	(31,299)
Employee benefits expense	-	-	(218,322)	(218,322)
Exploration expenditure expensed	(484,862)	(9,637)	-	(494,499)
Impairment of exploration assets held for sale	-	(50,893)	-	(50,893)
Write off assets	-	-	(1,291)	(1,291)
Finance costs	-	-	(377,646)	(377,646)
Occupancy expenses	-	-	(55,560)	(55,560)
Other expenses from ordinary activities	-	-	-	-
Loss before income tax expense	(484,862)	(60,530)	(1,021,677)	(1,567,069)
Income tax expense	-	-	-	-
Net loss for the year	(484,862)	(60,530)	(1,021,677)	(1,567,069)

MALACHITE RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

4 SEGMENT INFORMATION (CONTINUED)

2015	Lorena	Other Tenements	Corporate	Total
Revenue from continuing operations	-	-	18,859	18,859
Accounting and audit expense	-	-	(88,027)	(88,027)
Corporate expenses	-	-	(293,102)	(293,102)
Depreciation and amortisation expense	-	-	(39,317)	(39,317)
Employee benefits expense	-	-	(221,448)	(221,448)
Exploration expenditure expensed	(298,758)	(21,330)	-	(320,088)
Impairment of exploration assets	(12,271,191)	(745,000)	-	(13,016,191)
Finance costs	-	-	(377,383)	(377,383)
Occupancy expenses	-	-	(60,051)	(60,051)
Other expenses from ordinary activities	-	-	-	-
Loss before income tax expense	(12,569,949)	(766,330)	(1,060,469)	(14,396,748)
Income tax expense	-	-	-	-
Net loss for the year	(12,569,949)	(766,330)	(1,060,469)	(14,396,748)

	2016 \$	2015 \$
5 REVENUE		
From continuing Operations and other income		
Interest	2,316	2,772
Gain on remeasurement of embedded derivatives	-	16,087
	2,316	18,859

6 EXPENSES

The loss before income tax includes the following expenses:

Depreciation of non-current assets:		
- Property, Plant & equipment	21,267	26,969
- Motor vehicles	10,032	12,348
Total Depreciation	31,299	39,317
Employee entitlements - movement in provisions	3,566	(8,647)
Write off of exploration expenditure	494,499	320,088
Rental expense	55,560	81,777
<i>Finance costs</i>		
Convertible note - interest	152,045	248,280
Convertible note - non-cash	218,121	126,058
Interest paid	7,480	3,045
	377,646	377,383

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	(1,567,069)	(14,396,748)
Prima facie income tax benefit calculated at 30% (2015:30%) of taxable loss	(470,121)	(4,319,024)
Non deductible items	-	-
Movement in unrecognised temporary differences	(31,723)	3,833,403
Under/Over provision for income tax in prior year	13,202	
Taxable losses not recognised	488,642	485,621
Income tax expense	-	-

MALACHITE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

7	INCOME TAX (CONTINUED)	2016	2015
		\$	\$
	b) Franking account balance	230	230
	c) Tax losses		
	Unused tax losses for which no deferred tax asset has been recognised.	40,862,747	39,233,940
	Potential tax benefit at 30%	12,258,824	11,770,182
		2016	2015
		\$	\$
8	CASH AND CASH EQUIVALENTS		
	Cash at bank and on hand	66,728	360,543
		66,728	360,543
		2016	2015
		\$	\$
9	CURRENT ASSETS - TRADE AND OTHER RECEIVABLES		
	Accounts Receivable	20,449	20,449
	Employee advances	1,000	1,000
	Rental bonds	5,263	-
	GST receivables	5,990	5,792
	Prepayments	92,555	71,276
		125,257	98,517
	(a) Impaired receivables		
	The creation and release of the provision for impaired receivables is included in 'other expenses' in the consolidated statement of comprehensive income. 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.		
10	NON-CURRENT ASSETS HELD FOR SALE	2016	2015
		\$	\$
	<i>Deferred consideration on the sale of Exploration License 6196 and 7177 to Elsmore Resources Limited.</i>		
	Carrying value of exploration and evaluation expenditure	25,000	25,000
	Write-down of the asset to fair value	(25,000)	-
		-	25,000
	<i>Conrad Silver Project - Exploration License 5977 and 1050 and Mining License 5992, 6040 and 6041 to Silver Mines Limited (SVL)*.</i>		
	Carrying value of exploration and evaluation expenditure	525,000	1,250,000
	Payments received	(400,000)	(50,000)
	Sale of SVL shares	(99,107)	-
	Write-down of the asset to fair value	(25,893)	(745,000)
	Transfer of tenement deposits	-	70,000
		-	525,000
		-	550,000

* During the Period the Group received from SVL cash payments totalling \$400,000 and 77,056,191 SVL shares to the value of \$125,000. The Group sold its 77,056,191 SVL shares on market and received cash of \$99,107.

MALACHITE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

11 NON-CURRENT ASSETS - TRADE AND OTHER RECEIVABLES	2016 \$	2015 \$
Tenement security deposits	375,281	375,281
	<u>375,281</u>	<u>375,281</u>

12 PROPERTY, PLANT AND EQUIPMENT

Plant and equipment		
at cost	336,207	344,302
accumulated depreciation	(255,118)	(240,655)
	<u>81,089</u>	<u>103,647</u>
Motor Vehicles		
at cost	126,423	126,423
accumulated depreciation	(82,949)	(72,917)
	<u>43,474</u>	<u>53,506</u>
Total property, plant and equipment	<u>124,563</u>	<u>157,153</u>

Movement in property, plant and equipment	Motor Vehicles \$	Property, Plant & Equipment \$	Total \$
2016			
Balance at 01 July 2015	53,506	103,647	157,153
Additions	-	-	-
Depreciation Expense	(10,032)	(21,267)	(31,299)
Disposals	-	-	-
Write off		(1,291)	(1,291)
	<u>43,474</u>	<u>81,089</u>	<u>124,563</u>
Balance at 30 June 2016	43,474	81,089	124,563
2015			
Balance at 01 July 2014	65,854	130,616	196,470
Additions	-	-	-
Depreciation Expense	(12,348)	(26,969)	(39,317)
Disposals	-	-	-
	<u>53,506</u>	<u>103,647</u>	<u>157,153</u>
Balance at 30 June 2015	53,506	103,647	157,153

13 EXPLORATION AND EVALUATION EXPENDITURE	2016 \$	2015 \$
Costs carried forward in respect of areas of interest in exploration and evaluation phases	<u>11,475,000</u>	<u>11,525,000</u>
Movement for year		
Balance at beginning of year	11,525,000	25,046,191
Expenditure capitalised during the year	-	-
Impairment	-	(13,016,191)
Transferred to assets held for sale	(50,000)	(505,000)
Balance at end of year	<u>11,475,000</u>	<u>11,525,000</u>

The Group has reviewed its exploration assets for impairment at reporting date in accordance with the accounting policy stated in note 1 (g). 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 .

Impairment of costs carried forward in respect of areas of interest in exploration and evaluation phases	2016 \$	2015 \$
Lorena	-	12,271,191
Conrad	25,893	745,000
Elsmore	25,000	-
	<u>50,893</u>	<u>13,016,191</u>

MALACHITE RESOURCES LIMITED

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016**

14 CURRENT LIABILITIES	2016	2015
	\$	\$
Trade and other payables		
Trade creditors	178,844	244,048
Other creditors	549,063	329,968
Employee entitlements	25,105	21,539
	<u>753,012</u>	<u>595,555</u>
15 BORROWINGS		
Current		
Unsecured Convertible Note (a)	2,405,398	1,797,270
Derivative	-	85,979
Unsecured loan (b)	-	300,000
Hire purchase liabilities	-	19,605
Total current borrowings	<u>2,405,398</u>	<u>2,202,854</u>
Non Current		
Unsecured loan (b)	275,000	-
Hire purchase liabilities	-	-
Total non current borrowings	<u>275,000</u>	<u>-</u>
Total borrowings	<u>2,680,398</u>	<u>2,202,854</u>

(a) Unsecured convertible note

On the 15 March 2016 the Group advised that it had reached agreement with all of its Convertible Noteholders to extend the terms of the existing Notes to 1 July 2017. Noteholders also agreed to the capitalisation and deferment of interest subject to the proviso that the Group may, at its discretion, elect to pay interest rather than capitalise the interest if adequate working capital is available for this purpose. The Convertibles Notes have a face value of \$2,150,000 and capitalised interest of \$255,398 as at 30 June 2016.

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

- Maturity Date – 1st July 2017 ;
- Interest Rate – 15% per annum ;
- Conversion – at the election of Noteholders at any time; and
- Conversion Price - lesser of \$0.015 or a 20% discount to the 30 Day VWAP at the time of conversion.

The ASX has subsequently advised that the Group should obtain shareholder approval under Listing Rule 10.11 for these variations to the terms of the existing Convertible Notes issued to Directors and under Listing Rule 7.1 for the existing Convertible Notes issued to unrelated parties. The Group will be seeking shareholder approval at the 2016 Annual General Meeting to satisfy this requirement.

(b) Unsecured loan

The Group had an opening balance of \$300,000 in unsecured loans from Directors. These \$300,000 of unsecured loans were repaid by the issue of six new Convertible Notes with a face value of \$50,000 each. During the year, the Group received unsecured loans of \$275,000 from Key Management Personnel, which mature 1 October 2017 and have an interest rate of 12% pa with interest paid at maturity.

MALACHITE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

16 CONTRIBUTED EQUITY	2016 \$	2015 \$
1,132,914,821 fully paid ordinary shares (2015: 1,125,567,291)	56,544,368	56,544,368
	<u>56,544,368</u>	<u>56,544,368</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 2014	Opening balance	1,005,576,368		56,051,389
09-Oct-14	Payment of convertible note extension fee	7,060,524	-	-
03-Dec-14	Payment of convertible note extension fee	600,902	-	-
19-May-15	Share placement issue of 107,200,000 shares @\$0.005 per share	107,200,000	0.005	536,000
19-May-15	Payment of convertible note extension fee	5,129,497	-	-
	Transaction costs relating to share issues			(43,021)
30 June 2015		<u>1,125,567,291</u>		<u>56,544,368</u>
20-Oct-15	Rollover Fees for Convertible Notes	6,150,648	-	-
04-Dec-15	Rollover Fees for Convertible Notes	1,196,882	-	-
30 June 2016	Balance at end of year	<u>1,132,914,821</u>		<u>56,544,368</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 RESERVES	2016 \$	2015 \$
Share based payments reserve		
Balance at beginning of year	2,175,178	2,104,389
Option Expenses	32,403	70,789
Balance at end of year	<u>2,207,581</u>	<u>2,175,178</u>

The share based payments reserve is used to recognise the fair value of shares and options issued under a share based payments arrangement.

18 ACCUMULATED LOSSES	2016 \$	2015 \$
Accumulated losses at beginning of financial year	(48,451,461)	(34,054,713)
Net loss for year	(1,567,069)	(14,396,748)
Accumulated losses at end of financial year	<u>(50,018,530)</u>	<u>(48,451,461)</u>

19 KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors

The directors of Malachite Resources Limited during the year were:

Mr Terry Cuthbertson	- Non-Executive Director
Mr James Dean	- Non-Executive Director
Mr Andrew McMillan	- Non-Executive Director

(b) Other key management personnel

Mr Geoffrey Hillier	- Chief Executive Officer
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MALACHITE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

19 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

	2016 \$	2015 \$
(c) Key Management Personnel compensation		
Short-term employee benefits	392,071	431,222
Post-employment benefits	-	-
Long-term benefits	-	-
Share-based payments	-	-
	<u>392,071</u>	<u>431,222</u>

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

(d) **Related party transactions**

The Group had an opening balance of \$300,000 in unsecured loans from Directors. These \$300,000 of unsecured loans were repaid by the issue of six new Convertible Notes with a face value of \$50,000 each. During the year, the Group received unsecured loans of \$275,000 from Key Management Personnel.

20 AUDITORS' REMUNERATION

	2016 \$	2015 \$
Remuneration of the auditor of the Group for: Audit services		
Audit and review of financial reports under the <i>Corporations Act 2001</i>		
- MNSA Pty Ltd	41,115	-
- PriceWaterhouseCoopers	-	78,861

21 CONTINGENT LIABILITIES

There are no material contingent liabilities (2015:nil).

22 COMMITMENTS FOR EXPENDITURE

(a) **Capital Expenditure Commitments**

There are no capital commitments at the end of the financial year (2015: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.

Operating leases	2016 \$	2015 \$
Not later than one year	-	1,540
Later than 1 year but not later than 5 years	-	-
Later than 5 years	-	-
	<u>-</u>	<u>1,540</u>

(c) **Tenement Commitments****Tenement Expenditure required under tenement licence**

Not later than one year	63,000	122,741
Later than 1 year but not later than 2 years	183,000	140,476
Later than 2 years	-	-
	<u>246,000</u>	<u>263,217</u>

(d) **Hire Purchase Commitments**

Not later than one year	-	20,583
Later than 1 year but not later than 5 years	-	-
	<u>-</u>	<u>20,583</u>
Future finance charges	-	(978)
Recognised as liability	<u>-</u>	<u>19,605</u>

MALACHITE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

23 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 19.

24 INVESTMENT IN CONTROLLED ENTITY

	Country of incorporation	Class of shares	Ownership interest 2016 %	Ownership interest 2015 %
Name of controlled entity				
Conrad Silver Mines Pty Ltd	Australia	Ordinary	100	100
Volga Elderberry Pty Ltd	Australia	Ordinary	100	100

25 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:

On 20 September 2016 the Group announced that it had been advised by OPS that it has entered into a binding Heads of Agreement (MKS Agreement) to acquire an interest in the plant and equipment previously constructed on the Lorena Gold Project site ("Lorena Concentrator Plant"). When this acquisition is completed OPS will then be required to both complete the construction of the Lorena Concentrate Plant and supply a modular CIL circuit to provide a complete mineral processing plant capable of producing gold dore on site. The terms of the Malachite Agreement with OPS are essentially unchanged by the arrangement by OPS to acquire the Lorena Concentrate Plant. The Group believes that this is the best path to achieving the earliest possible and most cost effective gold production from the Lorena project.

On 29 September 2016, the Group announced a share purchase plan (SPP) to assist with working capital while the Group progresses a finance facility of at least \$2.5 million in order to meet its conditions precedent under the Malachite Agreement. The recent arrangement by OPS to acquire the existing Lorena Concentrator Plant as noted above is a positive step forward to develop the Lorena Gold Project.

MALACHITE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

26 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 consolidated statement of financial position as follows:

	2016 \$	2015 \$
Cash	66,728	360,543
	<u>66,728</u>	<u>360,543</u>
(b) Non-cash financing and investing activities		
Financing costs	(846)	108,875
	<u>(846)</u>	<u>108,875</u>
(c) Reconciliation of operating profit after income tax to net cash flows from operating activities		
Operating loss after income tax	(1,567,069)	(14,396,748)
Non cash		
Depreciation	31,299	39,317
Exploration expenditure written off	-	320,088
Impairment of assets	52,184	13,016,191
Finance fees	-	59,539
Capitalised interest	255,398	-
Gain/loss on remeasurement of embedded derivatives	(33,249)	33,249
Non cash directors fees	-	75,000
Other cash transactions	50,706	(1,647)
	<u>(1,210,731)</u>	<u>(855,011)</u>
Changes in assets and liabilities		
Decrease/(Increase) in receivables	(5,461)	(17,595)
Decrease/(Increase) in prepayments	(21,279)	(42,599)
Decrease (Increase) in exploration and evaluation expenditure	-	(320,088)
Increase/(decrease) in employee entitlements	3,566	(8,647)
Increase/(decrease) in payables	153,891	214,369
	<u>(1,080,014)</u>	<u>(1,029,571)</u>
Net cash inflow/(outflow) from operating activities		

27 LOSS PER SHARE

	2016 Cents per share	2015 Cents per share
Basic and diluted loss per share (cents per share)	<u>(0.14)</u>	<u>(1.41)</u>
Weighted average number of ordinary shares outstanding during the year used in calculation of basic loss per share	<u>1,126,254,027</u>	<u>1,018,809,706</u>

MALACHITE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

28 SHARE-BASED PAYMENTS

(a) Options issued to Employees and Directors

(i) Employee Option Plan

No options were granted to Employees for the year ending 30 June 2016.

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
2016									
			-	-	-	-	-	-	-
Total			-	-	-	-	-	-	-
Weighted average exercise price			\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
2015									
5 April 2012	25 May 2015	\$0.05	8,300,000	-	-	(8,300,000)	-	-	-
5 April 2012	25 May 2015	\$0.075	8,300,000	-	-	(8,300,000)	-	-	-
Total			16,600,000	-	-	(16,600,000)	-	-	-
Weighted average exercise price			\$0.06	\$0.00	\$0.00	\$0.06	\$0.00	\$0.00	

(ii) Directors Options

No options were granted to Directors for the year ending 30 June 2016.

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
2016									
			-	-	-	-	-	-	-
Total			-	-	-	-	-	-	-
Weighted average exercise price			\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
2015									
25 Nov 2011	25 May 2015	\$0.050	1,500,000	-	-	(1,500,000)	-	-	-
25 Nov 2011	25 May 2015	\$0.075	1,500,000	-	-	(1,500,000)	-	-	-
Total			3,000,000	-	-	(3,000,000)	-	-	-
Weighted average exercise price			\$0.06	\$0.000	\$0.000	\$0.06	\$0.000	\$0.000	

MALACHITE RESOURCES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

28 SHARE-BASED PAYMENTS (CONTINUED)

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

2016

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

2015

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

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

2016

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

2015

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

29 PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

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

	2016 \$	2015 \$
Statement of Financial Position		
Current assets	191,953	483,028
Non-current assets	10,821,405	10,923,199
Total assets	11,013,358	11,406,227
Current liabilities	3,158,410	2,798,409
Non-current liabilities	524,224	249,224
Total liabilities	3,682,634	3,047,633
Net Assets	7,330,724	8,358,594
Equity		
Contributed equity	56,544,368	56,544,368
Option reserve expense	2,207,581	2,175,178
Accumulated losses	(51,421,225)	(50,360,952)
Total equity	7,330,724	8,358,594
Loss for the year	(1,060,273)	(16,677,334)
Total comprehensive income	(1,060,273)	(16,677,334)

(b) Guarantees entered into by the parent entity

The parent entity did not have any financial guarantees as at 30 June 2016 or 30 June 2015.

(c) Contingent liability of parent entity

The parent entity did not have any contingent liabilities as at 30 June 2016 or 30 June 2015.

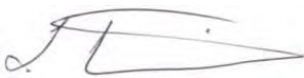
MALACHITE RESOURCES LIMITED

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Malachite Resources Limited, the directors of the company declare that:

- 1) The financial statements and notes, as set out on pages 14 to 37, are in accordance with the Corporations Act 2001 and:
 - a) comply with Australian Accounting Standards, which, as stated in accounting policy Note 1(a) to the financial statements, constitutes compliance with International Financial Reporting Standards; and
 - b) give a true and fair view of the Company's consolidated financial position as at 30 June 2016 and of its performance for the year ended on that date; and
- 2) In the directors' opinion 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
- 3) This declaration has been made after receiving the declarations required to be made in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2016.

On behalf of the Board



Terry Cuthbertson
Non-Executive Chairman

Sydney, 29 September 2016



**MALACHITE RESOURCES LIMITED ABN 86 075 613 268
AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
MALACHITE RESOURCES LIMITED ABN 86 075 613 268
AND CONTROLLED ENTITIES**

Report on the Financial Report

We have audited the accompanying financial report of Malachite Resources Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the 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, 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 (IFRS).

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 judgment, 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 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*.

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 2016 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b.) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our conclusion, we draw your 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 30 June 2016, 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 ability to obtain funding to complete the development and fund the operation of the Lorena Gold Project, the consolidated entity being successful in achieving positive cash flows from the Lorena Gold Project; the continued financial support of convertible note holders; and the raising of 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 doubt about the consolidated entity's ability to continue as a going concern and, therefore, the consolidated entity may be unable to realise 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 the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with s 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 2016 complies with s 300A of the *Corporations Act 2001*.

MNSA Pty Ltd

MNSA Pty Ltd



Mark Schiliro
Director

Sydney

Dated this 29th September 2016

ADDITIONAL INFORMATION AS AT 21 OCTOBER 2016:

Fully paid ordinary shares:

- (a) Total shares issued 1,132,914,821
- (b) Percentage of total holding by or on behalf of the 20 largest shareholders 37.65%
- (c) Shareholders with less than marketable parcel of shares 1115
- (d) There is not a current on-market buy-back
- (e) Voting rights: Every shareholder present personally or by proxy or attorney etc. shall, on a show of hands, have one vote and on a poll shall have one vote for every share held. No voting rights attach to options.
- (f) Distribution schedule of fully paid ordinary shares:

			Number of holders
1	-	1,000	67
1,001	-	5,000	120
5,001	-	10,000	170
10,001	-	100,000	583
100,001 and over			621
Total Number of Holders			1,561

- (g) Top 20 Shareholders:

Rank	Name	Units	%
1.	OLHOC PTY LTD <THE OLHOC A/C>	57,357,523	5.06
2.	BRIAN & VANESSA MORRISON CHARITY TRUSTEE LTD	41,746,032	3.68
3.	NEBRAL PTY LTD	37,317,794	3.29
4.	ELDORADO MINING LIMITED <THE MONTOPOLI A/C>	35,776,825	3.16
5.	BIOTEC VENTURES LIMITED <THE SAN VALENTINO A/C>	28,571,429	2.52
6.	CONSTRUCTION EQUIPMENT FINANCE LIMITED <THE FUTURA >	25,771,197	2.27
7.	B J WATKINS PTY LTD <B J WATKINS SUPER FUND A/C>	23,000,000	2.03
8.	JOHN WEBSTER + MICHAEL WEBSTER + LEVONNE UNDERWOOD	22,817,460	2.01
9.	CITICORP NOMINEES PTY LIMITED	19,781,012	1.75
10.	LEDESA PTY LTD <WOODLANDS SUPER FUND A/C>	16,669,842	1.47
11.	BNP PARIBAS NOMS PTY LTD <DRP>	15,331,139	1.35
12.	HEAVY DUTY SUPERANNUATION P/L <HEAVY DUTY SUPER >	14,873,912	1.31
13.	AGIO CAPITAL CORPORATION LTD <THE DEAN FAMILY NZ >	13,936,508	1.23
14.	NANYANG MINING RESOURCES INVESTMENT PTY LTD	12,548,370	1.11
15.	TRANDARA PTY LTD	11,678,062	1.03
16.	J P MORGAN NOMINEES AUSTRALIA LIMITED	11,112,557	0.98
17.	MS CONSILIA AMSTALT	10,000,000	0.88
18.	MR GREGORY JAMES DONNELLAN	10,000,000	0.88
19.	HUGHES SUPERANNUATION MANAGEMENT P/D <HUGHES S/F>	9,276,023	0.82
20.	LEEJAMES NOMINEES PTY LTD <THE HEPBURN SUPER FUND >	9,000,000	0.79
Top 20 holders of ORDINARY FULLY PAID SHARES		426,565,685	37.65

Substantial Shareholders	Shares to Which Entitled	%
Lindsay Jones and Associates	63,869,768	5.64
Olhoc Pty Ltd <The Olhoc A/C>	57,357,523	5.06

Unquoted Securities

There are also 43 Convertible Notes, each note having a face value of \$50,000, convertible at the lesser of \$0.015 and a 20% discount to the 30 Day VWAP at the time of conversion and which currently bear interest at 15% pa and having a maturity date of 1 July 2017.

CORPORATE DIRECTORY

Malachite Resources Limited

ABN 86 075 613 268

Directors

Terry Cuthbertson

James A. Dean

Andrew C. McMillan

Chief Executive Officer

Geoffrey R. Hiller

Secretary

Andrew J. Cooke

Bankers

National Australia Bank

Principal and Registered Office

Suite 2, Level 10

8-10 Loftus Street

Sydney NSW 2000

Telephone: + 61 (0) 2 9251 0032

Email: info@malachite.com.au

Share Registry

Computershare Investor Services Pty Ltd

Level 5, 115 Grenfell Street

Adelaide SA 1903

Enquiries within Australia: 1 300 556 161

Enquiries outside Australia: + 61 3 9415 4000

Email: web.queries@computershare.com.au

Website: www.computershare.com.au

Stock Exchange Listing

The Company's shares are quoted on the

Official List of the Australian Securities

Exchange Limited.

ASX Code: MAR

Website

www.malachite.com.au

Postal Address

PO Box R1295

Royal Exchange NSW 1225

2016 Corporate Governance Statement

The Company's 2016 Corporate Governance Statement can be found on the Corporate Governance page of the Company's Website.

Malachite Resources Limited
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