



MEDIA COVERAGE

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A common theme in our stock picks over the last few weeks have been earnings. However the market's appetite for risk appears to have returned in recent weeks, and so it may be appropriate to consider some companies of a more speculative nature

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Analyst report – shares

"Stock of the week": Malachite Resources NL

October 22, 2007

Tim Morris, wise-owl.com analyst

Stock: Malachite Resources NL

Recommendation: BUY

Code: MAR

A common theme in our stock picks over the last few weeks have been earnings. However the market's appetite for risk appears to have returned in recent weeks, and so it may be appropriate to consider some companies of a more speculative nature. There are many of these stocks out there, all vying for investors to take a punt on their 'blue sky' offerings, however the risks are often high and investors can easily get 'burned'. The key to investing in the smaller, speculative end of the stock market is to identify companies with a favourable risk to reward proposition.



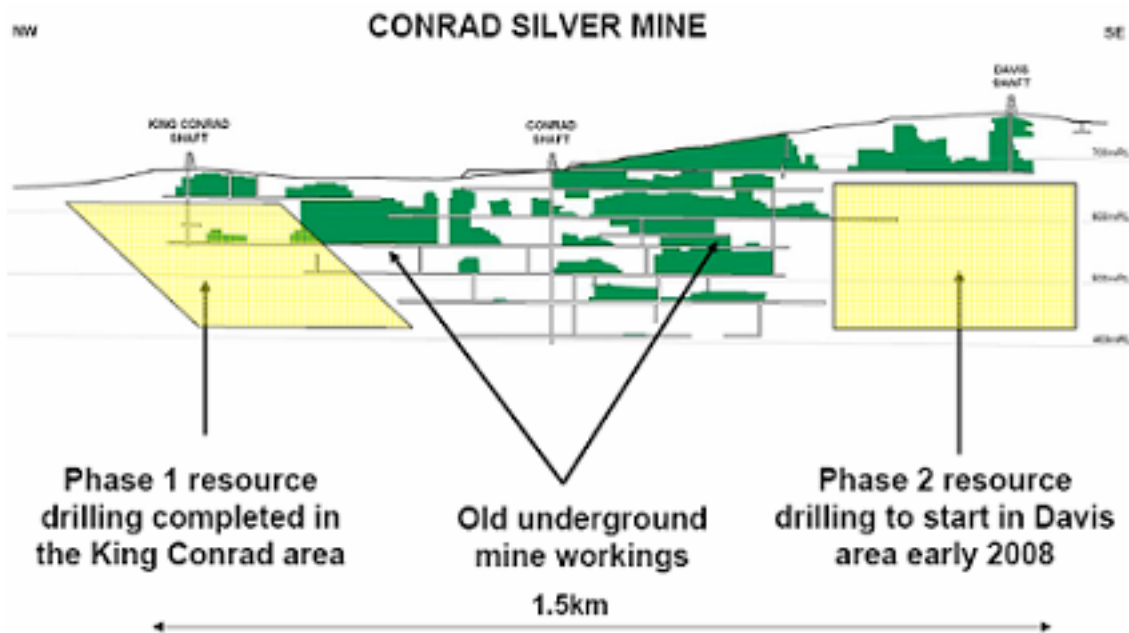
One junior resources company that we feel fits this mould is Malachite Resources NL (MAR), which has silver, copper, gold, and tin projects along the east coast of Australia. This year is set to be the most important for Malachite since its 2002 listing, as it is poised to make the transition from junior explorer to emerging miner.

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The company's most advanced project involves the redevelopment of the old Conrad Silver mine, located in northern NSW. Although Conrad has been mined twice before, drilling results have suggested that there is plenty of silver left in the ground, and Malachite's Managing Director, Dr Garry Lowder has indicated that it will be a 'company maker'.

Malachite owns 100% of the Conrad Silver project, which was last mined in 1957. As part of the redevelopment of Conrad, the company is aiming to prove via a drilling campaign, that silver mineralisation extends well beyond the areas previously mined. The drilling programme is targeting areas to the north west and south east of the old underground mine workings over a 1.5km stretch. Drilling has already taken place in the north western area known as 'King Conrad', however drilling is set to commence in early 2008 over the south western area known as "Davis".



Grades received from drilling results to date have exceeded expectations, and are within reason of those achieved from historic mining, which averaged high silver grades of 600g/t (20oz/t) in addition to 1.5% copper, 8% lead, 4% zinc and 1.5% tin.

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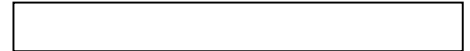
These historic grades suggest that the value of the embedded ore could be very high, in excess of \$US1,000/tonne at current metal prices, with silver accounting for 1/3 of that. Proving that the undeveloped mineralisation is of similar quality to that seen in the past may be a challenge; however it is possible that the project will be lucrative even at lower grades.

Initial conceptual modelling has suggested that a new mining campaign at the Conrad deposit could be economically robust. The model suggested that Conrad would be best developed as a low tonnage, high grade underground mine. Existing infrastructure in place from 1950's mining campaigns have the potential to give the project a significant head start and substantially lower capital costs. The company has indicated that the area contains enough resources to support a mining campaign in excess of 10 years, with a 1–3 year payback period based on a 200,000t pa production profile. Rather than aim to define the entire resource from the surface and then develop a mine, the company plans to begin mining as soon as sufficient resources have been delineated.

The most recent drill results have been very encouraging, with one hole showing a silver equivalent grade of 5,600g/tonne, consisting of 1.17m @ 1,715g/t silver, 3.9% copper, 16.1% lead, 5.0% zinc, 3.4% tin and 79g/t indium. The first clues on the size and quality of the mineralisation at Conrad will be evident when an initial resource estimate is released in November.



An example of high grade ore found at Conrad. Source: Malachite



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The next phases of development are a pre feasibility study by the end of 2008, followed by de-watering of the old mining shafts, full feasibility and construction in 2009. Malachite is aiming to establish 20m oz silver resource in time for project start up.

At this stage, Conrad is Malachite's main game; however the beauty of this speculative play is that it is not a 'one project wonder'. Malachite also holds an interest in two prospective copper fields in the Mt Isa region in the western area of Queensland. Collectively known as the 'Volga Copper project', initial drilling has produced encouraging results, including 6m @ 4.2% Cu, 4m @ 5.3% Cu, and 18m @ 2.4% Cu at the Mt Lidster prospect. Another round of drilling has just commenced, so further results should keep investors entertained.

Given that it is still early days on each of the companies main projects, funding will be a key issue facing their development. As of June 30 Malachite had \$2.2m in the kitty, and the cash balance was recently topped up after raising \$1.2m from existing shareholders via a share purchase plan. More raisings will be necessary in the future, however in the company's favour is the potential for support from substantial shareholder and mining heavyweight, Straits Resources (ASX code: SRL), which is an ASX top 200 company.

From a technical perspective the stock appears to be well supported around the 28c level; however it has recently rallied above the 35c mark on the back of drill results and anticipation of the initial Conrad resource statement. Momentum and favourable news flow could push it towards all time highs of 43.5c and beyond, with support at 28c being the short term downside risks.

The fundamental risks influencing this stock will be the silver price, exploration results, and the ability to obtain funding for additional exploration and project development. The speculative nature of the stock also means it is likely to be vulnerable during broader market weakness; however for those investors with the right risk appetite, we feel that it is worth punting that 'a silver moon will rise over Malachite's silver mine'.



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