

MALACHITE RESOURCES

SILVER LINING FROM COMMODITY RESURGENCE

A case of bad timing 11 years ago is morphing into a dream run for Malachite Resources as it heads towards start-up of the high-grade polymetallic Conrad discovery in northern New South Wales.

HISTORICALLY THE largest silver producer within the New England fold belt, the Conrad mine has already had two lives – the first before World War I and then again during World War II when it was refurbished by Broken Hill South and decked out with a sulphide concentrator to commence production during the post-war lead boom.

But as metals cycles go, the lead price crashed in 1957 and Broken Hill South turned its back on the mine, which remained idle until Malachite dusted it off in 2002 in the hope of reclaiming its former glories third time around.

Those glories include a rich, silver-dominated mix of base metals and “company-making” potential that has so far proven to be just what executive chairman Garry Lowder needed to counterbalance the pain of Malachite’s early years.

“Conrad will be our silver lining behind the grey clouds,” he said, acknowledging the pun and reflecting on the company’s formation in 1997 just before the resources market sank and “the sky fell in”.

“My timing was not brilliant in that sense, but we managed to survive the first years with funds from private investors and from Billiton [prior to the BHP merger],” he told *RESOURCESTOCKS*.

“That money kept us alive until things started to improve in 2002 when we picked up the Conrad project and put our energies into an ASX listing.

“That process in itself was quite challenging – we set out to raise a minimum of \$3 million and we only just got over the line.

“It would have been tempting to throw in the towel back then and it could well have made my life a lot less stressful.”

So what made the industry veteran of 40 years – including a four-year stint as Director General of Mines in New South Wales – hang in there?

“I knew the industry always moves in cycles, I knew the good times would come again as they always had done and I knew I wanted to be there when the next turnaround occurred,” he said.

“I do not think anyone could have predicted just how strong that next cycle would be though, with the emergence of China as a giant new market and the impact that has had on commodity prices overall.”

At the time Malachite entered the Australian Securities Exchange, metals prices had barely started their inevitable recovery and Lowder recalls silver being even more of a late bloomer, remaining at about \$US5 an ounce until around 2006 when it commenced a “fairly dramatic” rise

exceeding that of gold in percentage terms.

“We recognised early on that silver was very much undervalued as a commodity because new production was well short of the market’s annual consumption and because of the astounding growth in new applications,” he said.

“Interestingly, there are more patents registered worldwide each year for new uses of silver than for all other metals combined, which shows that it is tremendously versatile.

“Conrad came across our radar in 2002 – the historical production figures and grades were very good and it seemed like an excellent ready-made opportunity for us to get into something with serious ore potential.”

The deposit’s polymetallic nature simply added to its value.

“There is a lot to be said for having some level of diversification in your portfolio instead of focusing on a single commodity, particularly when it comes to long-term survival,” Lowder said.

“One of the great attractions of Conrad is that it contains six metals in economic concentrations.

“Historically, it is known as a silver mine – and that is the most valuable component in the mix – but it also holds significant quantities of copper, lead, zinc, tin and the rare metal indium.

“Mineral deposits on the eastern seaboard are typically more polymetallic than say, Western Australia, which tends to have more mono-mineralic deposits, such as nickel, gold and iron ore.

“The majority of ore bodies in eastern Australia have at least two metal combinations and there is a good spread of economic deposits in

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GARRY LOWDER
EXECUTIVE CHAIRMAN
MALACHITE RESOURCES



all sizes – from world-class finds to more modest ones that suit smaller companies like ours.”

The New England belt had specific attractions of its own, not the least of which is a highly prospective geology.

Extending along the coast of northern New South Wales to central Queensland, the region has more than 6000 known mineral occurrences in the NSW section alone, much of which is relatively under-explored.

“More than half of the New England fold belt exists in Queensland, where there are great ore bodies such as Gympie, Mt Morgan and Cracow and we saw no reason for that prospectivity to stop at the state border,” Lowder said.

“It was also much easier to get a good land position in New England compared with the better known Lachlan fold belt in central NSW.”

As far as cornerstone projects go, Lowder believes Conrad is just about as good as a junior explorer could hope for.

“If it proves successful, it will make us a serious player in the Australian mining industry and provide a strong annual cashflow of up to \$40 million, which is more than enough to underwrite our future expansion,” he speculated.

“We are currently drilling out sufficient resources – around 10 million ounces of contained silver or 30 million ounces of silver equivalent – to re-open the mine.

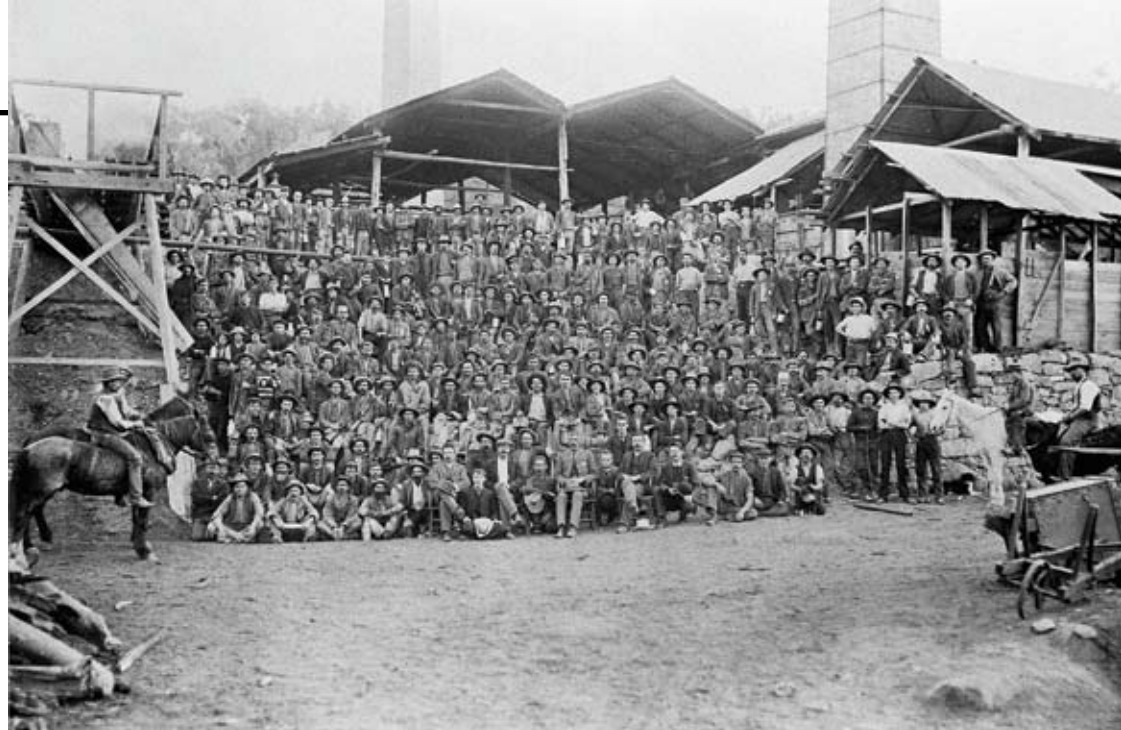
“We will release a major resource upgrade by August and a further upgrade later this year, which will hopefully allow us to proceed to production by 2011.”

While Conrad is receiving the lion’s share of Malachite’s financial and human resources, the company is also progressing other ventures in its portfolio such as the Volga copper project, 70km northeast of Mt Isa; the Elsmore tin project, 25km northeast of Conrad; and the Tooloom gold project, 30km east of Stanthorpe in far northern NSW.

Of these, Elsmore is shaping up as “an excellent opportunity” for short-term cashflow that will complement Malachite’s \$4 million bank balance and allow it to sustain a similar annual exploration expenditure.

“We have no income at present, so we live on capital raised by the issuing of new shares, but of course each time you do that, you dilute your existing shareholders, so we raise capital only when we really have to,” Lowder explained.

“Elsmore is not a company-maker



Conrad employees in 1902

or world-class project, but it would have a very low capital cost and it looks like it can generate between \$5 million and \$10 million in cashflow for around five years, sustaining us until Conrad comes on stream.

“Tooloom and Volga, on the other hand, are still very much at the exploration stage and we see them as projects in the pipeline for the future.

“That said, we happen to be drilling both at the moment and hopefully we will get them to a stage where they can enjoy some of the exploration spotlight once Conrad moves into development and production.”

Over the next 18 months, activities at Conrad will involve dewatering of the old underground mine, detailed underground drilling to convert resources to mining reserves, bulk sampling for metallurgy and the completion of pre-feasibility and bankable feasibility studies.

It is a workload that could make or break any junior, but Lowder believes the key is to keep a firm hand in the business and a keen eye on the prize.

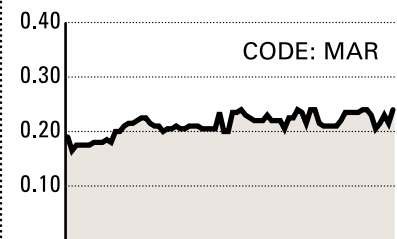
“In mining, you never know what your metals prices or market demand will be from one period to the next,” he said.

“One thing you can be sure of though, is that high grade will save the day.

“Conrad has proven historically that it can produce high value ore and the spectacular grades we have encountered in our drilling certainly support that.

“We have every confidence that our initial reserve target of one million tonnes of ore grading around 10 ounces of silver per tonne and 30 million ounces of associated base metals on a silver-equivalent basis, will give Conrad a new start and lead to a long and happy third life.” **RS**

MALACHITE RESOURCES AT A GLANCE



4 months ending June 30, 2008

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MARKET CAPITALISATION

\$30 million (at press time)

MAJOR SHAREHOLDERS

Anglo Pacific Group 6.5%
Straits Resources 5%