

Malachite Resources NL

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Dear Shareholder

CORPORATE UPDATE

Within a few months we will be dispatching your Company's Annual Report for 2005-2006 and our 2006 Annual General Meeting will take place in late November. I look forward to reporting to you in some detail on the work we have carried out over the past year. In the meantime, however, I thought it might be appropriate to provide you with a progress report, in the form of a commentary on some of the recent developments that have impacted favourably on Malachite and its prospects.

There are three key matters that I wish to comment on: (i) the farm in by Newmont at the Tooloom Gold Project, (ii) the current drilling at the Conrad Silver Project, and (iii) our strategy for generating a cash flow within the next two years.

The Newmont Farm In at Tooloom

When Malachite first went into the Tooloom area some years ago neither I nor, indeed, many other people in the mining industry, had heard of the area or were aware of its long history of gold mining. It was truly a forgotten goldfield that had escaped the attention of modern explorers and was languishing in a largely ignored part of NSW, the unfashionable New England Fold Belt, well away from the major discoveries of the Lachlan Fold Belt, in the NSW Central West.

Once we began field work at Tooloom it did not take us long to realise that we were dealing with large gold-bearing hydrothermal systems, of a size and intensity that would stand up well against those in the Lachlan Fold Belt. With little in the way of prior work or government mapping to build on, we have steadily developed an understanding of gold mineralisation in the Tooloom district that has reinforced our initial impressions. In this process, we have established Tooloom as one of the most important goldfields discovered, or more correctly, rediscovered, in eastern Australia in modern times. But still, because Tooloom is not located in a "recognised" gold province we continued to struggle to gain credibility for our discovery.

In time our perseverance was rewarded with the discovery of the very large Phoenix gold prospect, previously quite unknown. To date Malachite has spent approximately \$3.5 million to reveal what we now know about Phoenix and the other large gold systems at Tooloom, an amount that represents a very considerable investment in a single project by a junior company, much of it before we were listed on the ASX.

Early this year your Directors took the view that, having established the *bona fides* of Tooloom as a major goldfield and of Phoenix as potentially a major discovery, the time had come to share some risk by bringing in a joint venture partner to fund ongoing exploration. This would provide a return to our shareholders for the risks they had taken in supporting the initial discovery phases of exploration at Tooloom. We invited a number of the major players in the Australian gold mining industry to review our results at Tooloom and spent time in the field at Tooloom with several of the most likely candidates for joint venture.

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As a result of that process, and as recently announced, we are delighted to welcome Newmont Australia Limited (Newmont), a subsidiary of Newmont Mining Corporation, to a farm in at Tooloom, leading if successful to a long term joint venture relationship. Newmont is highly regarded for its expertise, technology and approach to exploration, not to mention their enviable track record of discovery success. As a consequence of the new farm in, that expertise and technology are available to us, as Operator of the joint venture, as we continue to tackle the challenges of gold discovery at Tooloom.

The entry of Newmont into Tooloom significantly improves the credibility of this project and Newmont shares our enthusiasm for Tooloom and the belief that the area could host a large economic gold deposit. As Newmont has gold reserves of over 93 million ounces, a discovery material to Newmont would be very material indeed to Malachite Resources. Moreover, while Malachite's interest in the project will be diluted as Newmont spends money on exploration, we will continue to be strongly leveraged. If a significant gold ore body exists at Tooloom it could cost tens of millions of dollars to prove it up to the level of bankable feasibility. Should Newmont elect to earn its full potential interest of 75%, Malachite would be carried free to that stage and end up with a bankable 25% interest in a significant gold ore deposit, without further expenditure on our part. This would represent just reward for our shareholders. I very much look forward to that happening at Tooloom.

The Conrad Silver Project

When Malachite listed on the ASX we gave particular attention to our silver assets, especially the old Conrad mine, located about 20km south of Inverell in northern NSW. Soon after listing we conducted a drilling programme at Conrad that produced some encouraging results.

Over the past year or so the price of silver has risen strongly, reaffirming Conrad as a very attractive silver exploration target. Responding to this change, and with the benefit of old underground data that we have located in archives since 2003, we reviewed results to date at Conrad and recognised that the King Conrad end of the system (at the northwestern end of the mining leases) was at least as attractive as the main Conrad lode and held out potential for multiple lodes. Earlier this year therefore we undertook a new drilling programme in the vicinity of the King Conrad shaft and were quickly rewarded with very encouraging results. Not only did we confirm the presence of multiple lodes but also, some of these lodes have turned out to be much wider than expected, considerably enhancing overall tonnage potential and offering much lower costs should it come to mining.

A follow up drilling programme at King Conrad began in June and continues at this time. The drilling is aimed to provide additional intersections in the Conrad and King Conrad lodes and also to intersect the obliquely oriented Alwell's lode, historically the highest grade lode of all. At present we are drilling the seventh hole in the new programme and although no lode assays are available as yet, we are greatly encouraged by the type and amount of sulphide mineralisation visible in the holes drilled so far. Once again, we have intersected multiple lodes over widths greater than expected. The first of the new holes intersected the Alwell's lode, as planned, but also cut significant mineralisation over substantial widths earlier in the hole. Since then we have also obtained attractive intercepts in holes testing the King Conrad lode.

We will release assay results for these mineralised intersections as they come to hand and I will provide more technical information about the drilling in the Quarterly Report, due out by the end of July. In the meantime, let me say that we are greatly encouraged by what we are seeing in the drilling at Conrad and King Conrad and I believe we are well on the way to establishing a significant silver resource at the project. Added to the silver will be substantial values in copper, lead, zinc and tin, probably at levels that will more than double the value of what we have found when calculated on a silver equivalent basis. Also very intriguing will be

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the assays for indium, the rare metal worth three times as much as silver that we have found to be present in potentially economic amounts in surface samples of the lodes we are now testing at depth.

Cash Flow Strategy

Since its inception as an unlisted public company in 1997, and since we listed on the ASX in November 2002, Malachite has funded its activities with capital raised from shareholders. The Board is very grateful for your support in this regard, most recently with the raising of \$608,000 through the latest offering of our Share Purchase Plan. We will need to raise further capital in the near future to fund further drilling at Conrad and exploration at the various other projects that are enhancing your company's value. But we recognise that every new issue represents dilution of our existing shareholders and that in order to hold our issued capital at a level commensurate with our status, we need to focus considerable effort on selected projects that offer the opportunity for cash flow in the short to medium term. Our existing prospects at Elsmore (Sheep Station Hill and Newstead), Cheviot Hills and Abington (Baxters mine) all seem to offer that potential and each will see action in the short term.

Elsewhere, we are currently considering a copper-gold prospect in northwest Queensland that could also move rapidly to the resource category and we are evaluating one or two other opportunities that offer early cash flow potential. I hope to bring you further news of these shortly.

Malachite's core business is the steepest part of the mining industry value curve, as illustrated in the diagram below. Please be assured that as we move Malachite up the value curve by discovery success we will also be very conscious of the need to fund our future growth by becoming a miner in our own right, at a scale that matches our technical and financial capacity.

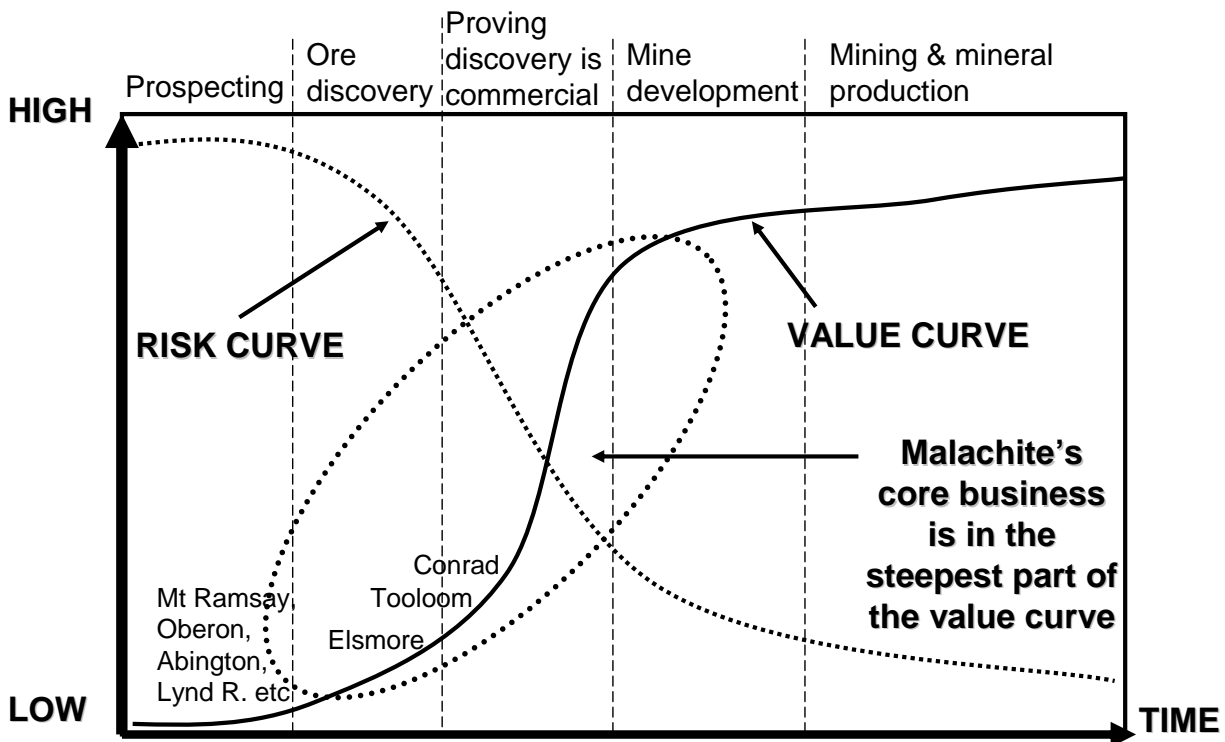
Thank you for taking the time to read this letter and please feel free to telephone me, or make contact by email, if there matters you would like to discuss.

Yours faithfully,
Malachite Resources NL



GARRY LOWDER
Chairman & Managing Director

Mining Projects: Value vs Risk Curves



The information in this report that relates to Exploration Results is based on information compiled by Dr Garry Lowder, who is a Fellow of the Australasian Institute of Mining and Metallurgy. Dr Lowder has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.' Dr Lowder consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.