



# Malachite Resources NL

ABN 86 075 613 268

## CHAIRMAN'S ADDRESS ANNUAL GENERAL MEETING 13 November 2003

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Ladies and Gentlemen

As we hold this meeting today Malachite Resources is just two weeks away from its first anniversary as a listed company. Since listing, Malachite has established itself as a well recognised precious metals and base metals explorer in eastern Australia, with significant interest in our progress being shown in the press and in the broader market. The announcement, just two days ago, of our entry into alluvial tin mining has also been well received and the potential for the new Elsmore project to put this company into positive cash flow should not be underestimated.

The move into tin at Elsmore does not represent a change of direction for your company. Rather, it gives substance to our long-held ambition of becoming a successful explorer and developer of precious metal and base metal deposits in eastern Australia. Drilling up a reserve at a project like the Conrad silver mine, for example, is an expensive exercise. For Malachite to undertake such a program solely with equity could lead to undesirable dilution of our existing shareholders through further share issues to raise working capital. Our tight equity base has been instrumental in maintaining our market value since we listed and it is your Board's intention to keep the company's issued capital as lean as possible.

It is well known that exploration is a high risk and expensive business. Most shareholders will appreciate that discovery success rarely comes quickly or easily. Nature can be very capricious and many prospects that show early promise fail to measure up on follow through, while others that disappoint early are ultimately successful. The keys to that ultimate success are perseverance and an ability to see critical things that previous explorers have missed or simply ignored. At the same time, the temptation to just follow the herd must be resisted and the term "breaking new ground" is very apposite in an exploration context.

Malachite is a leader, not a follower. We have been prepared to go into unfashionable locations and adopt new and innovative approaches to generate our current portfolio of exploration projects. We have done so with a budget that our major competitors would see as little more than petty cash. Because of that, progress is slower than we would sometimes like. In many cases, such as Tooloom, we have had to start at the very beginning, rather than jump straight into advanced projects with high entry barriers. But, if we can be successful with this approach, the upside potential for our shareholders is great indeed.

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I mentioned Tooloom so let me enlarge on that theme a little more. Tooloom is not just a prospect, or even several prospects. It is an entire goldfield. If it were in a more fashionable location, such as the Eastern Goldfields of WA, it would be a pin cushion full of drill holes by now. When we acquired our initial interest in Tooloom it was not even recorded as a goldfield on Government geological maps. The many prospects we have since identified were virtually unknown. This is in spite of the fact that in the 1860s between 5,000 and 10,000 people were mining gold in alluvial deposits at Tooloom and alluvial gold mining has continued intermittently until very recently. When we started exploration in the area Tooloom was a clean slate. We were forced therefore to attack it from first principles, applying the kind of approach that was applied in the SW Pacific islands when exploration companies first moved into that area in the 1960s and 1970s. Most of this work was carried out before we listed and limited funding meant that progress was slow. Nevertheless, we have now identified ten prospects at Tooloom that we would like to drill, some of them probable sources of alluvial gold mined both historically and recently. The first such drilling is soon to get underway and we look forward with keen anticipation to the results to come, particularly from Phelps and Joes Gully.

Conrad is quite different from Tooloom, in that at Conrad there is a well known mineral deposit, with substantial previous mining, historic high grades and immediate drill targets. Even so, Conrad has been virtually ignored by the exploration industry since the 1950s. It took Malachite's willingness to break new ground for the significance of Conrad as a potential major source of silver to be recognised. It is true that our initial drilling at Conrad did not intersect the kind of values that are recorded as the historical average ore grade. We are encouraged nevertheless by the continuity of the lode at depth and the broadening of the lode along strike to the southeast. We do expect better grades to come as further drilling closes in on the ore shoots that are likely to occur within the plane of the lode structure. Beyond that, we also expect to find further silver mineralisation within the already known, 6 km strike extension of the Conrad structure to the southeast. Interpretation of modern aeromagnetic data for the Conrad area has also identified several parallel structures that may host mineralisation.

To date we have drilled only 6 holes spread over an 800 m strike length of the Conrad lode. We have not yet drilled the King Conrad section at all and the critical Moore Shaft area, where the main ore shoot may be plunging, could not be drilled in the initial program because of access difficulties. To provide better access to these undrilled areas and to allow us to chase the near southeast extension of the lode, we need to be able to access Crown land outside the Conrad mining leases. For that to happen, we must first complete the right to negotiate process under the native title act. This process is underway and the notification period will conclude on the 9<sup>th</sup> of January, 2004. We hope negotiations with any native title parties that emerge can then progress quickly and that field work and drilling can resume at Conrad early in 2004.

Drilling has commenced just this week at our Boonoo Boonoo silver-gold property, located 20 km north of Tenterfield. We are targeting a series of old workings about which very little is known and where there has been no prior drilling. Sampling of old mine dumps produced many anomalous and several high grade results and the rocks show many of the characteristics of typical epithermal gold deposits. An induced polarisation geophysical survey conducted by Malachite recently has helped define drill targets. Geologically, the Boonoo Boonoo lodes look very attractive, but as we know so little about the true widths and continuity of the lodes, not to mention actual grades of mineralisation at depth, we must be cautious about the outcome of this program. After Boonoo Boonoo, the rig will move to Rivertree and then go on to Tooloom.

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One of Malachite's core assets is its right to access a giant geochemical database owned by BHP Billiton, called the AGI Database. This database is a superb research resource that we have utilised over the past year to secure two exciting new projects, each held 100% by Malachite. The first of these, known as Copperfield, is located about 150 km west of Townsville. We see it as an excellent opportunity to discover high grade copper-gold-silver mineralisation, possibly accompanied by bulk, low grade copper mineralisation that could be of interest to a large company. The other new project, called Lynd River, is located about 200 km west southwest of Cairns. It offers a number of targets that have aeromagnetic features very reminiscent of those characterising the Kidston and Mt Leyshon gold deposits, located elsewhere in the region. Both new projects involve exploration permit applications over previously open ground and in each case, the Queensland expedited native title process is required and is presently underway. We hope that Copperfield will be granted in the next few months and that Lynd River will follow around the middle of next year.

As I mentioned earlier in this address, exploration is both risky and expensive. Maintaining an active exploration program funded only by subscribed equity capital has a limited future if excessive dilution is to be avoided. For that reason, Malachite has sought to identify an opportunity to bring forward the day when the company has a positive cash flow from a producing asset. A number of possible acquisitions have been investigated over the past year or so, but until recently none seemed right for us. They were either beyond our technical, financial or management capacity, or offered only narrow operating margins that did not seem to justify the risk involved.

Elsmore is very different. The option we have negotiated with Mr and Mrs Tickner, the owners of the land, the mine and the minerals at Elsmore, will allow Malachite to enter the ranks of Australian mineral producers on a low cost, low risk basis. Significantly, because the land titles at Elsmore include ownership of the underlying minerals, if Malachite exercises its option no mining lease would be required for mining and no royalties would be payable to the Crown from tin production.

Our immediate plans for Elsmore call for a scoping study to assess the technical and financial hurdles to be overcome if we are to proceed with mining of alluvial tin resources. We believe that these hurdles will be well within our capacity to manage, especially as we have the opportunity to start small, essentially on a pilot scale, and build up as our confidence grows. Our aim is to delineate sufficient alluvial resources, including tailings from previous production, to justify recommencement of mining. Once this is done, we will seek development consent from Inverell Council, together with such other regulatory approvals as may be necessary to commence mining, hopefully by September Quarter, 2004. Success of the venture on a pilot scale will be the platform for launching into a larger scale operation at Elsmore, with an annual production rate of 1,000 tonnes of tin metal in concentrates as our objective.

While this is underway, we will also begin exploration of the hard rock tin occurrences on the property, which are the probable sources of the alluvial deposits. The aim will be to determine whether an economic hard rock tin resource is likely to occur at Elsmore.

The Elsmore property also contains a deposit of kaolin, which, though relatively small by world standards, is of exceptional quality. This deposit could represent an attractive opportunity for niche production of calcined kaolin for sale to the cement, paint, paper and plastics industries. The economic potential of the kaolin is substantially greater than that of the alluvial tin at Elsmore and represents a significant part of the project's value. However, kaolin, like any industrial mineral, requires a heavy emphasis on marketing and securing of off-take agreements with consumers before production. I am pleased to report that the very preliminary discussions we have held with potential customers and joint venture partners

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have been encouraging in regard to kaolin production at Elsmore. We will pursue the Elsmore kaolin potential quite vigorously, with the expectation that if we proceed to kaolin production it would be jointly with an existing industry participant.

While our entry into the Elsmore project is a relatively low cost exercise, at least initially, we will be incurring significant expenditure that was not anticipated when we floated last year. Accordingly, it is now appropriate that we should raise a limited quantity of additional capital, both to fund our Elsmore activity and to accelerate progress at our gold and silver exploration projects. The Board has therefore decided to introduce a Share Purchase Plan, under which each eligible shareholder on our register at the close of business today will be able to purchase shares up to \$5,000 in value. Further details of the Share Purchase Plan will be announced in the next few days but I can advise that eligible shareholders will be invited to purchase shares at some discount to the market and free of brokerage.

It remains now for me to express my sincere thanks to my colleagues at Malachite for their ongoing support and encouragement. I am grateful to my fellow directors for their specialised knowledge, in particular to Peter Hopkins for his legal counsel, to Warren Staude, who was a tower of strength in the listing process late in 2002 and more recently to Denis O'Neill, whose knowledge of the silver exploration and mining business is proving most valuable to Malachite. Andrew Cooke continues to provide very efficient services as company secretary, for which I am grateful. Finally, I particularly want to thank our exploration manager, Russell Meares, and his contract geologists, Bradley Wake, Matthew White, Michael Vickers and Chris Bannerman, who have been the cutting edge of our exploration program over the past year.

Ladies and gentlemen, Malachite is here to stay. I think we can look forward to some very exciting exploration results in the coming months. I believe we can also look forward to paying our way in the world without having to dilute our existing shareholders excessively. Organic growth through exploration success, funded by earnings from Elsmore, is our goal. My fellow directors and I thank you sincerely for your interest and we look forward to achieving our goal with your continuing support as we go forward into the future.



G.G. LOWDER  
Chairman