

Hopes for a rising Phoenix

Malachite Resources' Phoenix gold discovery in New South Wales is soon to be drilled. If the results match expectations, the company will command a major re-rating. **By James Hamilton**

Given the bumper crop of junior companies created in the current global resources boom, it is becoming increasingly difficult for the average investor to sort the wheat from the chaff.

While management, projects and commodity prices form the natural assessment criteria for emerging resource companies, one element too often glossed over is the business plan.

Many juniors, particularly explorers, do little more than extol the virtues of having cash flow at some ill-defined point in the future. There is precious little detail on exactly how that cash flow will come about, which assets will produce how much and when this change to producer status can be expected.

It is refreshing then to see a company like Malachite Resources NL very much in tune with its business plan. Malachite, run by managing director Dr Garry

Lowder, is an unassuming explorer that has been steadily toiling in New South Wales and Queensland, hunting for gold, silver, copper and tin.

While Lowder acknowledges Malachite hasn't exactly set the stock market alight since raising \$3 million from its initial public offering in November 2002, there have been a few nice runs in the price (up to 28c) when good news has been reported. Furthermore, he argues by sticking to its business plan during the past two years, Malachite has steadily grown itself to a position where it can achieve its corporate goals.

"We see ourselves as a specialist eastern Australian explorer and we focus our efforts on the steepest part of the mining industry value curve — the discovery phase," Lowder said.

"We take a pragmatic approach, though. We appreciate that you can't go on diluting shareholder equity through new raisings



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forever. Hence, Malachite will go mining in the short term, but only if the resources are relatively small and within the company's technical capabilities."

To this end, Malachite has streamlined its business plan to pursue two key objectives.

From a macro perspective, the company is chasing large, world-class ore systems, particularly in copper-gold, where it can potentially enjoy a large stock price uplift as the orebody is identified and worked-up to bankable feasibility.

On a micro perspective, Malachite is scouting for smaller resources, particularly tin projects, which it can mine quickly to fatten its cash balance. These funds can then be used to re-invigorate the macro objective.

Lowder has used his excellent contact base from his days as director general of the NSW Department of Mineral Resources to attract bigger companies to Malachite's register. BHP Billiton, Straits Resources and Macmin Silver all have small but strategic stakes in Malachite, and Lowder says the company is very much in favour of alliances where the partner has complementary technical and financial resources.

"We are very fortunate to have such great alliances, particularly with a super-sized miner like BHP Billiton. They are punting on our ability to come up with something really new.

"The BHP Billiton alliance has given us access to their Australian Geochemical Initiative (AGI) database for eastern Australia. This part of the AGI database contains assay, location and other information for over one million soil and stream sediment samples. It is this resource which prompted us to peg ground in North Queensland at Copperfield [150km west of Townsville], and further north at Lynd River."

With its business plan in place, Lowder appreciates it is now time for the company to deliver on the exploration front. Malachite's most exciting project is



RC drilling at the Elsmore tin project in northern New South Wales.

its 100%-owned Tooloom property in the north-east corner of NSW.

An old goldfield first mined in 1857, Tooloom slipped into obscurity in the 1870s after the discovery of gold at Gympie, 270km to the north in Queensland. Part of the large New England Fold Belt that stretches from Newcastle to Townsville, Tooloom and its surrounds have long begged for modern-day exploration techniques.

Malachite has already made a virgin discovery in Tooloom at its Phoenix prospect, where an 8-hole RC program encountered a number of juicy intersections in a breccia pipe, including 79m at 0.7 grams per tonne gold. While the grades to date are low, it is still early and it is the scale of the mineralised system (over 1km across at surface and extending to a depth of over 500m) which has Malachite's geologists and Lowder excited.

"It's certainly a project that has the potential to be a multi-million ounce resource," Lowder said. "The geochemical anomaly that helped us find it was similar to that at Cadia and that model influenced our initial drilling. We now, however, think of it not so much as a porphyry, but as a reduced intrusive-related prospect, similar to major gold deposits found in Alaska. Our exploration approach has been redesigned to take account of this and we will be kicking off with another 2000m RC program soon."

Lowder expects drilling to start in April 2005, depending on rig availability. He said after that program the company would have a greater handle on how it would tackle Phoenix in the longer term — not surprisingly, given the potential of the property, the company has had a number of phone calls from would-be partners.

While a rising Phoenix shapes as its company-maker, Malachite continues to follow a parallel strategy seeking short-term cash flow. The company has two tin properties under examination:

- Elsmore — an important former tin producing area near Inverell in northern NSW.
- Mt Ramsay — located in the west coast mineral belt of Tasmania, a joint venture with TasGold Ltd, where the partners are farming into a project held by BHP Billiton.

The Elsmore district has produced tin intermittently since 1871. The company originally had an option to purchase the old Elsmore mine itself but let that lapse in November 2004, citing better potential on its own adjoining ground.

"We've been very encouraged by exploration at our Sheep Station Hill and Newstead prospects where we think we have a good chance of turning one or both into a small mining operation, throwing off between \$1-3 million in profit per annum."

At Mt Ramsay, 30km north-east of Zeehan, the work is more grassroots, with the partners following up newly recognised



The Phoenix gold prospect in north-eastern New South Wales.

electromagnetic anomalies. The blue sky is that these anomalies and their host geology are similar in character to those at the nearby Renison Bell tin mine which was re-started last year by hugely successful new junior float Bluestone Tin.

"For us, chasing tin is akin to a Perth-based junior chasing cash flow from a small gold deposit in the Eastern Goldfields," Lowder said. "If we can delineate 500,000 to 1 million tonnes of ore grading 1% tin equivalent or greater, we go mining."

"The price of tin is now around \$US8000 per tonne and the beauty of tin is that mining and processing are quite simple. The technology has been around for years and offshore smelters are desperate for concentrate."

"The outlook for tin is very good, given that there is a push on to replace lead with tin in things like solder and ammunition. If the big manufacturers of electronics and computers, such as Dell, continue to switch to high-tin, lead-free solder, then the metal's future is assured."

Rounding out its suite of projects are Malachite's Conrad silver mine in NSW, and the Copperfield project in Queensland. The Conrad mine, located 20km south of Inverell, produced silver from 1898 to 1912 and again from the late 1940s to 1957, making it the largest silver producer in New England.

Malachite believes that if Conrad is to start up again the most likely sources of ore are extensions and repetitions along the 6km strike extent of the Conrad lode structure, most of which has not been explored in modern times.

Meanwhile, at Copperfield in North Queensland, a well defined copper-gold-silver lode, with high copper grades in outcrop, is due to be drilled soon after the current wet season.

At a press time price of 15c and with very thin trading volumes, Malachite

looks to be something of a "sleeper" stock waiting to be activated.

It has enough cash to fund its current exploration programs, a suite of interesting projects, some terrific names on the register (with plenty of cash and expertise), a tight capital structure, and, most importantly, a well-defined business plan that its actually implementing. Perhaps all it needs now is a stroke of luck. In that regard, just maybe a rising Phoenix can wake this company's share price from its slumber.

malachite resources
... at a glance

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MARKET CAPITALISATION
\$6.6 million (at press time)

MAJOR SHAREHOLDERS
Garry Lowder (7.68%)
Straits Resources (7.45%)