

# MALACHITE RESOURCES LIMITED

ANNUAL GENERAL MEETING, 23 NOVEMBER 2009

## CHAIRMAN'S ADDRESS

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Ladies and Gentlemen,

When we met here a year ago we were in the midst of the most serious and far-reaching financial crisis to afflict the world in 75 years. At that time the outlook for the world economy was bleak indeed and there was a great deal of uncertainty and fear on the part of investors. Since then, much has changed and, for Australia at least, the outlook has improved substantially, although it would be foolish to assume that there are no more shocks to come, or that all the pain is in the past.

In my address last year I made the point that, notwithstanding the crisis, the fear and the uncertainty that prevailed, we could take encouragement from the fact that people around the world still needed and valued the materials with which to build their daily lives – the metals and minerals that would provide a roof over their heads, a place to work, the raw materials and the tools to make the goods that are the essence of trade and commerce. Today, it is very clear that the prime basis of Australia's superlative position relative to other developed economies is our natural endowment of mineral resources and our ability to develop and export them to world markets. And key amongst those world markets, more so now than ever, is China.

In spite of that positive scenario for resources, there have been many casualties of the global financial crisis over the past year, including a number of junior resource companies in Australia. I am very happy to report that your company has not been one of those casualties. Which is not to say that the past year has been easy; on the contrary, we have lived through the past year with much trepidation, as we endeavoured to stretch our available capital sufficiently to ensure our survival until better times. It is a great credit to our staff that they accepted a 50% pay cut for four months as a direct and very material contribution on their part to weathering the financial storm.

Following capital raisings in August and October this year, Malachite is now in a reasonably strong financial position, one that will become even stronger as the newly established relationship with Nanyang Mining builds into a long term strategic alliance. It seems to me to be very fitting for Malachite, as an Australian resource company, to be forming an alliance with a Chinese partner, reflecting in microcosm the alliance that has underwritten the economic recovery we are now enjoying in Australia. Later in this meeting I will introduce representatives of Nanyang but first let me talk a bit more about why we are so pleased to have Nanyang joining us as our partner for growth.

Nanyang Mining Resources Investment Pty. Limited is a private company backed by Mr Wong Ying Kin, who has been a major player in the growth and economic development of Guangdong in China. Although currently living and working in Guangdong, Mr Wong is an Australian permanent resident and his family lives here in Sydney. He plans to make his long term residence in Australia. Mr Wong has identified Australian resources as a major growth area for the future, driven by what he sees happening in China, and he wishes to become a significant player in the Australian mining industry,

beginning with a strategic alliance with Malachite. Already that alliance has been expressed by a direct equity injection into the company and soon we expect to sign documentation that will establish Nanyang as our joint venture partner at Conrad. With Nanyang's help, we plan to push Conrad ahead as quickly as possible and as we do so, Malachite's shareholders will enjoy the leverage that will come from the new joint venture structure. It is also possible that we will form other joint ventures with Nanyang in the future, adding to the alliance and allowing us to further leverage shareholders' funds, growing the company in parallel with Nanyang as it sets out to achieve its own growth objectives.

Let me now turn my attention to our other areas of activity, briefly at this stage because you will hear more about them later in a slide show presentation from my colleagues and me. There is not much to say about Conrad, as the project has been effectively on hold while we have been working on a joint venture outcome that will fund future work. Similarly, the Tooloom Gold Project has been idle until recently, due to our need to conserve funds, but it is gratifying that we are now able to conduct a modest reconnaissance drilling program to test attractive targets at three prospects: Pine Gully, Back Creek and Joes Gully. Two drill holes have been completed at Pine Gully and the rig is now drilling at Back Creek. The Pine Gully drilling certainly intersected the targeted structure, and we are encouraged by some of the rocks we have seen in drill core, but until we have some gold assays I will reserve further comments on the success or otherwise of the drilling.

One area in which we have been quite active over the past year is with our alluvial tin aspirations, initially at Elsmore and now also on our Kings Gap exploration licence. We believe that a conventional wet processing alluvial mining operation would be difficult to get through the regulatory approvals process, so we have focussed on dry processing, which appears to offer a way to finesse the twin problems of water supply and slime disposal. We have sent samples from Elsmore to Germany for test work utilising new dry separation technology being developed at the University of Aachen. Progress has been slow – the work to date has been done free of charge – but the results have been positive and more samples are to be sent to Germany soon. This time we will pay a fee to accelerate the process. If the results on the additional samples are also positive we plan to bring the dry separation device to Australia early next year for field trials. Our objective is to make a call on the viability of alluvial tin mining by the middle of 2010 and if it looks good, to proceed immediately to develop a small operation, generating perhaps \$2-3 million p.a. in cash flow for a few years.

Ladies and gentlemen I referred a short while ago to the gratitude the Board and I have for the loyalty of our staff and I look forward to rewarding that loyalty as we go forward into 2010. One way we would like to do that is to provide an opportunity for equity participation by our employees in their company, through an employee share or option scheme. In this context it disappoints me greatly that the Australian Government has chosen to virtually eliminate employee share schemes as part of the remuneration mix for company employees by applying a taxation regime on such schemes that largely destroys any incentive or reward for the employees concerned. Start up and entrepreneurial companies, like Malachite, live on capital and cannot really compete with established, profitable companies in terms of the salaries that they pay to their employees. Until the new employee share legislation came along we were able to compensate substantially for this disadvantage by issuing options to our employees that, while they would have no real value initially, would provide a significant benefit in the long term if the company successfully emerged as an

operating miner. As such, these options represented both a short term incentive and a long term reward for employees.

The government's new legislation does not distinguish companies like Malachite from our much larger and financially stronger competitors. By taxing options at the time of issue, rather than when value is actually realised, the issue of options to our employees would be a burden rather than a benefit to them. This takes away our ability to remunerate our staff in a way that does not incur an immediate cash cost to the company, placing even heavier demands on our limited and hard to raise capital. It is a serious barrier to Australia's ability to spawn new, innovative and wealth-creating companies from scratch.

I have a solution to this problem that I would like to offer to the Treasurer: simply exempt from the new legislation employee equity issues by all junior companies, being perhaps those with a market capitalisation of less than \$250 million. The lost revenue to the government would be minimal; the benefits to start up companies and their employees, and in the longer term to Australia generally, would be great and risk capital invested in companies like Malachite would go a lot further.

Looking ahead I am optimistic about both the future of Malachite and of the Australian mining industry generally, despite the dead hand of government that so often stifles wealth creation. Metal prices look like remaining strong well into the future, as demand grows and supply fails to keep up. The outlook for precious metals is particularly encouraging, given the likely continued weakening of the US dollar and the re-emergence of inflationary pressures. It may surprise you to know that no less an authority than the United States Geological Survey has identified silver as the first metal that could become 'extinct' – that is virtually unprocurable – and that it could do so by 2020. Today more than half of all silver use is in industrial applications and that proportion is growing. Unmined silver deposits, such as Malachite's Conrad, could very soon become rare and highly sought after assets. If we can realise, with the help of our new friends at Nanyang, our objective of bringing Conrad to production over the next few years our timing may prove to be propitious indeed.

Finally, I would like once again to acknowledge with sincere gratitude the hard work and commitment of the people who make up Malachite Resources. I would also like to express my thanks to our shareholders for their loyalty and support, in many cases over a number of years, but never more critically, and never more appreciated, than over the past twelve months. Who knows what the next twelve months will bring? What I can say with confidence is that everyone at Malachite will be working very hard to deliver the value that we can see in our projects and our people and I look forward to sharing that experience with you next November.

Thank you.



G.G. LOWDER  
Chairman