MALLEE RESOURCES LIMITED

ASX ANNOUNCEMENT

30 November 2021
ASX Code: **MYL**

BOARD OF DIRECTORS

Mr John Lamb
Executive Chairman, CEO

Mr Rowan Caren
Executive Director

Mr Jeff Moore
Executive Director

Mr Paul Arndt
Non-Executive Director

ISSUED CAPITAL

Shares	190 m.
Unlisted Options	5 m.

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CHAIRMAN'S ADDRESS – ANNUAL GENERAL MEETING 2021

Mallee Resources Limited (ASX: MYL) advises that Executive Chairman and CEO, Mr John Lamb, is addressing shareholders at the Annual General Meeting (AGM) at 11.00am AWST today.

A copy of the Chairman's Address is enclosed.

Authorised for release to the ASX by

Rowan Caren

Executive Director and Company Secretary

CHAIRMANS ADDRESS, 2021 AGM

It is my pleasure to address you this morning ladies and gentlemen as the Chairman of Mallee Resources. The fact that I am able to do so, means that we have survived the events of this last year in Myanmar, we have achieved a sale of our interest in the Bawdwin project to a local buyer, we have rebranded, we have trimmed our costs yet kept our core team together, and we have turned the attention of that team to securing the next chapter of our story.

There is much work to do. As of today, we remain suspended, we continue to receive funds from the sale transaction, and we do not yet have a new project. And while I am very encouraged by the opportunities we are working on, and I can see a light at the end of the tunnel, I am acutely aware of the challenge that our team must rise to, in order to get us there.

Today provides an opportunity for me to update shareholders on the progress of the Bawdwin divestment, and on progress in the search for a replacement project, as well as providing some commentary in relation to the resolutions that will be put to the meeting.

Let me begin with the flow of funds from Myanmar.

As of today, we have about $33M AUD (based on yesterday's exchange rate) in the bank.

We have received all of the US$16.875 million payable outside of Myanmar. This was the portion of the sale contract that settled via Singapore, and whilst the flow of funds generally between Myanmar and Singapore has slowed considerably, the buyer has been able to complete this part of the transaction on time.

Funds due under the second limb, totaling US$13.125M are payable in Myanmar, and I am pleased to advise that the instruments under which payment will be made have been stamped by the government. The processes for transferring USD within Myanmar are dynamic and have changed in recent months. For that reason, which is entirely outside of the control of the buyer, we have agreed to allow an extension of the timeframe for payment of those funds to the end of December which may be extended further if conditions demand.

The buyer has advised that the funds are ready to go, and we have now established a Myanmar bank account into which those funds can be received, with a bank that provides a transaction flow through to Australia. It was necessary to establish a new bank account when our Myanmar banking partner ANZ Banking Group, with whom we have banked for four years in-country, elected not to assist the Company.

We expect funds to flow in tranches, with the first to occur within days.

While I am optimistic about this process, there remains a risk until the last dollar is safely in Australia.

Meanwhile, our team is extremely busy looking at opportunities, on the assumption that all cash due to the company arrives as I've just described. I can tell you that there are hundreds of possible projects out there for sale: the haystack is large and there are only a few needles to be had.

I've described the process as asset-first or asset-led: that means compelling geology, sufficient scale and the right suite of metals. Hopefully also the right project stage, in a good location, and without encumbrances such as previous owners' dud deals to drag it down. So, it is a process of finding a great asset, and then making sure we can live with the challenges it presents us with.

We want to generate shareholder value immediately from the transaction – in other words, to buy well. It is often said that you make your money when you buy and, therefore, we seek an asset that is undervalued so that a control premium might be accommodated, if necessary, with plenty of upside left for MYL. Or, an asset in troubled hands, where we can solve a vendor's problem and in so doing acquire a keenly-priced project.

Both of these are uncommon occurrences. It is easier to find a good asset that is already fully and fairly valued in the market, then add a control premium, and hope that our good work over years to come ultimately sees a return to shareholders. That is the conventional path, and I hope that shareholders understand that we are prepared to be *unconventional* to get them a better deal. That work is challenging, the volume of data to sift through is huge, and the expectations I have placed on the team are high. But that is the task we have before us.

Let me describe our process to you:

Each member of the team, within our own network, finds ideas or “leads” which we think could work – there have been well over a hundred of these so far.

Individual project “champions” follow up on the leads and, if they look to be plausible, bring them to the team for a first screen. We consider whether the project is compelling, how such an asset might fit, and whether it has any big red flags that make it impossible for us. This is **phase 1 - preliminary screening** and we have screened 51 so far.

If we like the idea and think it is worth pursuing, we move to phase 2. The project champion is tasked with setting up a preliminary meeting, collecting public domain data, and working on a confidentiality agreement. The project goes into the tracking system, and we set up a directory to store the information. Sometimes we get a CA in place quickly and there is a vendor data room ready, other times it is a slower process.

The idea of this **second phase of screening is to find fatal flaws**. Is it permitting, environmental or legal issues, resource risk, or just a high price? Once we have a CA in place, and if we like the early data, we will usually try to have a commercial conversation to establish that a deal can be done, to gain an idea of price expectations and any other commercial issues like board seats, royalties etc. So far, 18 projects have been fatal-flaw screened under a confidentiality agreement.

If we turn up a fatal flaw that can’t be overcome or would make the project unviable, then the project is retired at that point. But those that survive fatal flaw screening go on to phase 3. We’ve dropped projects so far on permitting risk and time frame, overblown price expectations, technical flaws and so on. It takes a few weeks to get to that stage and is a team decision to drop a project.

Phase 3 is detailed DD. We aim to do a deep technical dive <u>only</u> on projects that we see as having sufficient value, no fatal flaws we can't overcome, and a willing vendor. We do things like construct our own resource model from their data, undertake a site visit, conduct legal due diligence on the permitting and tenure, create a financial model and satisfy ourselves that we would be taking something valuable, attractive, financeable, and saleable back into the market.

This is where the commercial conversation, which runs alongside the technical work, gets pointy. The transaction price and mechanism need to be discussed, and I'm looking for a meeting of the minds at that point.

So far, only a few projects have reached this level. One was eventually rejected on the basis of the vendor's value expectation, against not enough resource work done and relying on a particular geological interpretation – so the risk/reward tradeoff didn't stack up even though the commodity, jurisdiction and story are good.

The others remain live, with fields trips and technical work underway and healthy conversations with each vendor. Meanwhile, the pipeline of opportunities continues to flow, and new projects continue to pass through our screening process. As I have noted previously, I am not going to name projects, or even locations and specific commodities, as our ability to find privately held, undervalued and distressed assets is our competitive advantage. When you see a needle in a haystack, you don't tell until *after* you have picked it up.

I can tell you that we are not overly sensitive to jurisdiction – it is more about selecting a place that is safe and practical to work. Europe, the US, Canada, Australia and even parts of Central America are pretty good. We are much more selective in Africa, South America and Asia.

And we cast a wide net on commodities, although the screening process includes a question about marketability, so a poorly understood or unpopular commodity needs an absolute gem of a deposit to still make it. We've considered projects in nickel, copper, gold, silver, tin, tungsten, zinc, lead, rare earths, silica sand, iron, and even fluorspar. But you won't be surprised to hear that energy, base and precious metals have been at the forefront.

We're also not against the portfolio idea – the idea that you can acquire and combine a few smaller things that, in combination, are worth more than the sum of the parts.

As regards timing, I don't want to be rushed but if we find something that ticks our boxes, we won't be holding out in the hope that the grass could be greener elsewhere. I believe it will take some months to find a project, complete our process, and structure a deal. Once it is announced, the timing of completion will depend on the structure, and a return to trading in our shares will depend on stock exchange rules.

In the meantime, we are seeing some very good opportunities. I trust our team and our process, and I intend to spend your money well.

That is our *one critical job* right now.

Before I move on to discuss the business of the meeting ahead of us, I would like to pause for a moment and thank one of our friends and colleagues who has recently left us: Director Andrew Teo. You will have seen the announcement last week, but I wanted to make mention of it here as well. Andrew joined at the beginning of the COVID pandemic in 2020 and he has been a source of great wisdom and clear thinking throughout the events of this year. When Andrew joined us, he was non-executive Chairman of Medusa Mining, but he is now full-time Managing Director and needs to clear the decks elsewhere. We won't move to replace Andrew immediately – we will take the opportunity to run with a smaller board for a while and save a few pennies. But we are very sorry to see Andrew go, we thank him for his excellent contribution to the company, and we wish him well.

I will now turn to the business that will be before us in the meeting. We have resolutions to re-elect directors who retired by rotation, to pass the remuneration report, and to authorize our planned incentive program.

It is of course the latter about which I will make some comments. I have tried on several occasions to explain the thinking, and there are still shareholders who don’t like what has been proposed. So, I’m going to have one more attempt today.

It rests on three premises:

1. **We have one key task right now:** if we do it *extraordinarily* well there will be immediate benefit. If we only do an average job, it will take much longer to recover value diminished by the political events in Myanmar.
2. **It is a very difficult challenge**, and we are absolutely not guaranteed to succeed. We have a brilliant team, and we are now asking them to go above and beyond, and to make sacrifices, to get us there.
3. It is an unconventional incentive because **we have an unconventional problem, requiring an unconventional solution**. If we could get there by just doing our jobs well, then I would be happy to propose a conventional incentive that pays in a few years on a multiple of share price.

I think people accept the need for incentive programs – a way of keeping salaries competitive and staff interested without using our precious cash reserves, especially at this time of salary hikes and people across the country leaving their jobs for greener pastures. But there are times in the life of a company – critical points – where an incentive can produce an extraordinary result when it is needed most. That’s what this is about.

The program is for all staff, including executive directors, for whom shareholder approval is necessary.

It doesn’t pay unless we have added value by buying well. The test is a 20% increase compared to our theoretical cash and receivables-backed value, *immediately* after we return to trading. The idea is to measure how well we have spent your money, *not* our ability to drill holes and write studies, which will come later.

There seems to be a view that it is an easy undertaking. Let me lay out the things that must go well, in order for us all to succeed:

1. We need to bank the proceeds of sale in Australia. If we don't get it all in, we have less to spend, and the task becomes harder. The fact that we have already banked more than half of these funds bodes well and is a real achievement given the challenges we have faced to preserve any value at all from the Bawdwin investment.
2. We need to find a needle in a haystack, as I described above. That is a complex task, requiring a bit of luck.
3. We then need to be able to do a deal that is value-accretive, with plenty of upside, and present it in the market so that we may return to trading.

If we fail on any of these, we *can* still buy a good asset at a fair price, and rely on good work to rebuild value in the future.

But I would prefer for shareholders to get an *early* win. We have designed an incentive program to give that the best possible chance, and which doesn't pay otherwise, and I urge shareholders to vote FOR resolutions 4 to 6.

Thank you for your attendance today, and thank you to those many shareholders who have provided feedback and suggestions over the past few months. The content of this Chairman's address is certainly not as I would have imagined when I stood here a year ago.

I am pleased with our team's response to a very difficult turn of events, and I thank our staff and my fellow directors for holding their nerve and pulling together to refloat the ship. Although we are not yet clear of our difficulties, we have travelled a long way down the path, we see excellent opportunities ahead, and I expect next year's Chairman's address to be somewhat more buoyant.

Thank you

John Lamb

Executive Chairman and CEO

Opportunity Identification Process

A phased process to identify high value opportunities at an early stage.

	Activity	Method
Generative Phase	Referral of base, battery and precious metals opportunities	'Non-public' referrals. Rejection of implausible opportunities
Phase 1	Preliminary screening	Red-flag analysis of: geology, geography, stakeholder, commercial and legal issues
Phase 2	Fatal flaw screening under a confidentiality agreement	Due diligence. Testing of transaction concepts with counterparties
Phase 3	Detailed due diligence	Technical, commercial and legal due diligence. Site visits. Drafting of transaction agreements