



27 November 2014

CHAIRMAN'S STATEMENT FOR 2014 AGM

As most shareholders will be aware, through various releases to the ASX and postings to the Company's website, the Company is currently in litigation in regard to the Kihabe Zinc, Lead and Silver project in Botswana. This process of litigation led to the Company applying considerable time to this situation during the year under review.

In May 2013, the current Minister Mokaila, Minister for Minerals Energy and Water Resources (MMEWR) Botswana, rejected the Company's application for renewal of its prospecting licence PL69/2003, which contains the project. He did so because the Company did not complete a Feasibility Study on the project by 30 June 2012, which it was not able to do under the conditions of the JORC code.

This is a detailed case and one which requires considerable explanation. I believe a good explanation summary is outlined in the Company's September 2014 quarterly report, released to the ASX on the 17th October and posted to the Company's website. Copies of that section of the quarterly report, headed THE ISSUE OF GRID POWER RELIED UPON IN PLANNING A FEASIBILITY STUDY TO PRODUCE ZINC METAL ON SITE FROM THE PROPOSED DEVELOPMENT OF THE KIHABE PROJECT, PL69/2003, BOTSWANA, are available for anyone who wants to take one away with them.

I will however outline what I believe are pertinent points in regard to this issue so that shareholders can gain an understanding of what we believe are the chances of regaining our title to this project, the case for which will be heard in the Appeal Court of Botswana in January 2015.

This is a project which the Company has never failed to commit to. Project expenditures are well over those outlined in commitments. To date the Company has spent some \$14.5 million on the project discovering and developing resources of some 25 million tonnes of Zn/Pb/Ag mineralisation. Also, regional exploration has shown that there is real potential to significantly expand the resource base in this SEDEX system of mineralisation.

This is a project that many of the Company's shareholders have continued to help fund on the basis of bringing it into production and reaping the benefits of reward for the risks they have taken. For this, the Directors of the Company intend to pursue, with every effort possible, the Company's right to title over this project.

As far back as September 2006, the Company was assured by the then Minister MMEWR, Charles Tibone that grid power would be available in the project area by 2011. In July 2008, the Company was advised by the Botswana Power Corporation that grid power would be available in the project area by the end of 2012. In June 2009, the

Company was further assured by the Botswana Power Corporation that the Company could rely on grid power being available in the project area.

In January 2010 the then Minister MMEWR Dr Ponatshego Kedikilwe visited Kihabe site and asked what the project would need to get into production. I explained to the Minister that the project would need grid power. The Minister requested the Company make a formal submission outlining the infrastructure requirements to get the project into production.

In March 2010, the Company advised the Minister that in order to maximise beneficiation within Botswana (which is what they were always asking for) and produce zinc metal on site through solvent extraction and electro-winning the oxide zones of the deposits, which accounted for half of the resource base, the Company would need in the region of 40 MW of grid power. The Company also requested to be advised of the expected time frame for getting power to site, the line cost per Km and the cost of power supply per KW hour. The response to this from the Minister's office was ***"This is certainly useful to enable us to engage with other stakeholders"***

Based on belief that grid power would be available, the Company outlined that it would undertake a project feasibility study when it applied to renew its licence for a further two years to 30 June 2012. Accordingly, the Company completed the **Checklist for Appropriate Company Programme of Prospecting Operations**, required by the Mines and Minerals Act of Botswana. Section D and E of this checklist which deal with feasibility studies, specifically state that Delineated Reserves must be **"compliant to one of the international codes for estimating reserves"**. The Australian JORC code, the one code that all other international codes were based on in respect of feasibility studies and related reserves, is an internationally accepted code.

The 2004 JORC code, applicable in this instance, specifically states that you cannot upgrade your RESOURCES to RESERVES unless at the time of so doing, you can show that in accordance with all required modifying factors, the RESERVES are capable of being exploited on a commercial basis. The JORC code further states that you can only produce and get a competent person to sign off on a feasibility study when you are able to delineate RESERVES.

During 2011 and early 2012, it became apparent that the previously advised availability of grid power to the Kihabe project area would not be met. Indeterminable delays were occurring in the completion and commissioning of Botswana's Morupule B power project, which were not the fault of the Botswana Power Corporation. As a consequence, the Company, in compliance with the JORC code and the Botswana Mines and Minerals Act checklist, had to put on hold work on the feasibility study because the lack of grid power to the project area meant that it could not upgrade its RESOURCES to RESERVES and therefore could not produce a feasibility study.

In March 2012, because of the power situation, the Company gave a power point presentation to Minister Kedikilwe, advising him of amendments the Company was planning for its prospecting programme in order to keep the feasibility study on track. The Company advised the Minister that it was reviewing alternative metallurgical recovery processes requiring less power, in the event that it needed to rely on on-site power. It further advised the Minister that for the time being it was concentrating on generating new geochemical soil anomalies with the purpose of increasing the projects resource base. The Minister suggested that the Company should join the power forum in order to be kept abreast of the power situation and advise on its power requirements. In accordance with the Mines and Minerals Act, the Minister had two months within which to reject such proposed amendments if he wasn't satisfied with the proposed change to the prospecting

programme. No rejection was received from Minister Kedikilwe within the required two month period. As a result the proposed amendments became effective.

In March 2012, three months prior to the expiry of the then current term, the Company applied for a further two year extension of PL69/2003, to 30 June 2014. This three month period allows the Minister time to inform the applicant in the event he intends not to renew the licence. During this three month period the Company did not receive any queries or any notification from Minister Kedikilwe that he would not renew the licence. Accordingly, as it was entitled to do, the Company continued in good faith working on the project for a further fourteen months, incurring expenditure on a daily basis amounting to \$1.2 million. Then in May 2013, the new Minister Mokaila informed the Company that he had rejected the Company's application for extension submitted in March 2012.

Minister Mokaila rejected the Company's application for an extension to 30 June 2014 because it failed to complete a feasibility study by 30 June 2012. He declared as "unsatisfactory" the Company's representation that it could not complete a feasibility study because of the lack of a power supply. He further advised that the Company did not gain permission from the Minister to vary its prospecting programme. Permission was received – confirmed by the fact that in accordance with Section 22.1 of the Mines and Minerals Act, as the Minister did not reject the proposed amendments within two months, they became effective.

In June 2013, the Company appealed Minister Mokaila's decision to Dr Ponatshego Kedikilwe, formerly Minister MMEWR then appointed as Vice President, Botswana.

In July 2013, Minister Mokaila advised the Company that he was entitled to reject the Company's appeal to the Vice President. In so doing he informed the Company that, regardless of the JORC code, it had to comply with Botswana's Mines and Minerals Act and should therefore have produced a feasibility study by the end of 2012. The Company did comply with the Mines and Minerals Act by adhering to the conditions required of its checklist. This states under sections D and E that when dealing with a feasibility study one has to comply with an international code so far as RESERVES are concerned.

The Company took the case to the High Court of Botswana. In accordance with Sections 3 (1) and 3 (2) of Botswana's State Procedures Act, and in accordance with Sections 50(4) 51(3) and 127 (3) of Botswana's Constitution, the Company nominated the Attorney General as the Respondent on behalf of the Minister for Minerals Energy and Water Resources. Precedent in the High Court of Botswana has established in two previous cases that the Attorney General represents Ministers in any litigation. Whilst the Attorney General served notice on the Company intending to oppose, she never filed Heads of Argument opposing the Company's Notice of Motion and Founding Affidavit, despite being given two opportunities to do so by the High Court. The Attorney General only raised *Points of Law in Limine*, one of which was that the Company should have filed the case against the Minister for Minerals Energy and Water Resources.

In accordance with precedence established in the Appeal Court of Botswana, *Points of Law in Limine* can only be raised in conjunction with filing of Heads of Argument, which the Attorney General failed to do. Regardless, in the High Court ruling, handed down on the 28th April 2014, the High Court Judge ruled that the Company's application for renewal of PL69/2003 be struck out with costs because Minister Mokaila was not joined in the proceedings, only the Attorney General was cited as the Respondent. Such ruling was handed down despite the Judge even stating "No cause shall be defeated by reason of the misjoinder or non-joinder of parties and the Judge may in every cause deal with the matter in controversy, so far as regards the rights and interests before him".

The Company has now taken its case to the Appeal Court of Botswana to be heard in January 2015. The Appeal Court is presided over by three independent Commonwealth Judges.

During the year a number of investors continued to help fund the Company, despite it being in this situation relative to its Kihabe project. For this I express my sincere gratitude. I also extend my thanks to those Directors and their Associates who have continued to support the Company with funding as required. With the difficulty of raising funds in this market the Company has had to apply significant restraints on expenditure. Staff members have been accommodating in appropriately scheduling their work arrangements for the benefit of the Company. For this I am extremely grateful.

Regrettably, Mr Ben Mosigi, geologist and resident of Botswana, had to resign as a Director of the Company, in order to demonstrate independence in securing engagements with other parties whilst the Company is endeavouring to secure title to the Kihabe project. Ben has assured the Company of his continued support in the event that the Company regains title to the Kihabe project. Finally, I should like to welcome Mr Chris Campbell-Hicks to the Board of the Company. Chris has considerable international experience as a metallurgist, having achieved senior positions of responsibility in major corporations. In 2005 Chris spent 6 months in Botswana overseeing the construction, commissioning and training for the operation of the Tati Nickel, Copper Cobalt SX/EW Plant. In the event of regaining title to the Kihabe project, Chris is very positive about defining alternative metallurgical recovery processes to be applied to the project, in the event of having to rely on on-site power.