



CHAIRMAN'S ADDRESS ANNUAL GENERAL MEETING 2016

Your Directors expect the current year will be one of great advances for Variscan. We have spent the past five years laying the groundwork in France. We now have seven granted exploration licences ("PERS") and are commencing drilling on two of these, targeting zinc at Merleac and gold at St Pierre.

We are now at the stage where exploration outcomes can be expected to validate our strategy of targeting 'brownfields' mineral projects in France. All of our PERs contain either significant old mines and/or pre-JORC resources. We have assembled a portfolio of excellent exploration properties by application rather than acquisition.

France has been overlooked as a mineral exploration destination for over 25 years – some of our properties have not been explored since the 1970's. French government policy changed several years ago to encourage mineral exploration. Variscan has had the benefit of being the early mover but also being the most persistent. We have worked with local and French government authorities to successfully establish our credentials.

We have outlined the attractions of France for mineral exploration previously. These include:

- Excellent geology for significant orebodies;
- Supportive French government policies;
- Excellent infrastructure;
- A pool of experienced and well qualified technical people; and
- In most cases, limited land use conflicts.

It is now time for the drill bit to do the talking.

Recently, we announced the award of the Couflens PER. Couflens includes the Salau tungsten mine. Salau has recorded past production of 0.93 million tonnes at 1.5% WO₃ for around 11,500 tonnes of WO₃ in concentrate, prior to closure in 1986. Salau has exceptional exploration potential for additional tungsten, especially at depth, and for copper and gold where there has been recorded economic grade mineralisation.

The potential of Salau is such that we have agreed exploration funding with Ariege Tungsten SAS. Under this agreement Variscan has a 20% free carried interest until definitive feasibility study is completed or total expenditure of €25 million (A\$36 million). The importance of this joint venture funding is not to be underestimated. It demonstrates Variscan's ability to attract exploration capital even in the recent relatively depressed metals markets. The value of the carry to Variscan, if fully completed, is around A\$7 million. This compares to our current market capitalisation of around A\$10 million.

So – why are we keen about Couflens? There is excellent exploration potential that is fully funded for the next €25 million. Better still, the historic tungsten grades at Salau are very high compared to competing deposits. This will most likely result in Salau being in the lowest cost quartile of future tungsten new mine supply. Tungsten prices - currently around US\$180 - 200/metric tonne unit for ammonium paratungstate - have recently been depressed, primarily

due to reduced demand for steel pipe from the oil & gas industry. However, there is a lot of upside and a return to much higher prices quite likely. World tungsten demand is around 100,000 tonnes per annum of which 70,000 tonnes is new mine supply. The market has been growing at around 4% per annum resulting in ample room for new mine development.

The preparatory exploration work of collating all the past data and planning for re-opening the underground for exploration access has commenced.

Turning back to the Merleac zinc property, during the year we announced a maiden JORC 2012 mineral resource estimate for the Porte-aux-Moines ("PAM") zinc-lead-copper-silver-gold deposit which will be highlighted in our Managing Director's presentation.

There is ample potential to expand this resource and diamond drilling is currently being permitted and expected to start soon.

The PAM deposit is part of a highly prospective 15 kilometre long trend containing at least four additional centres of VMS mineralisation which may also contain new high grade deposits.

The grade and width dimensions of the PAM deposit and the regional VMS targets defined by our VTEM work have the key ingredients to become an economic development. Of special note is that the PAM zinc equivalent grade places PAM in the first quartile of polymetallic mines and deposits.

Of particular interest is the strong upwards movement in the zinc price. Over the past year, 3 month LME zinc has risen from around US\$1500/tonne to current prices around US\$2500/tonne. This strong cyclical recovery has occurred against a backdrop of supply cutbacks from high cost producers and mine closures. Despite this favourable zinc price background the few listed zinc explorers such as Variscan have yet to see it reflected in share prices. However, I am confident that our turn will come.

Gold - on the St Pierre PER we are about to commence an initial drill program following up previous exploration work.

We are also drilling at the Ville Tirard prospect where historic drilling is reported to have intersected thick zones of near-surface gold mineralisation.

Whilst our immediate exploration activity and capital is focussed on Merleac, St Pierre and Couflens we are not overlooking our other PERs.

At the Beaulieu PER which covers France's largest hardrock tin mine, Abbaretz which closed in 1957, our work over the last 12 months has included regional soil sampling programme over the main tin trend as well as capturing and digitising the large amount of exploration data for the area. To date data for over 800 drill holes has been acquired, with some holes containing good tin intersections at some of the prospects which will greatly assist in defining our next steps in the exploration of this exciting region.

During the past year, shareholders, existing and new, have provided \$2.5 million (pre-costs) of funding to enable Variscan pursue our exploration programs. We appreciate this support and look forward to the exploration outcomes delivering the rewards to shareholders.

We are always reviewing options for the funding of our exploration activities where we can minimise the dilution to existing shareholders. It is in this light, that we preferred to dilute by 80% of the Couflens PER in return for an exploration expenditure of up to €25 million. Needless to say, we think this provides Variscan shareholders with a much better outcome. As we move forward we will continuously review various financing options.

In addition to our activities in France we continue to hold several investments in mineral exploration and development companies. At the end of September the market value of those investments was approximately \$1.8 million. These investments include:

- Eastern Iron Limited – Eastern Iron has an advanced iron ore project and potential for VMS copper-gold mineralisation at Nowa Nowa Victoria. Needless to say the recent iron ore prices have adversely affected Eastern Iron’s proposed development activity.
- Silver City Minerals Limited – Silver City has an extensive exploration portfolio around Broken Hill, NSW. The Company is currently undertaking drilling programs.
- Thomson Resources Ltd – Thomson has a large exploration portfolio for copper, gold and tin within the Thomson and Lachlan Fold Belts, NSW. The Company’s focus in the past year has been the Bygoo and Ardlethan tin prospects where Thomson has generated some very encouraging drill results.

We are fortunate to have small and dedicated teams in Sydney and Orleans, France. Our Managing Director Greg Jones is to be commended on the progress we have made over the past year despite the ongoing negativity surrounding the investments markets in metals and exploration.

For the forthcoming year we are on the cusp of delivering exploration outcomes that should provide the justification for our French exploration strategy – we are all keenly looking forward to the drill bit doing the talking!

Pat Elliott
Chairman