



**Independence Group**



**Company  
Insight**

the intelligent market update

**Independence Group NL**

**Date of Lodgement: 12 Nov. 2012**

## **Title: Company Insight. Tropicana Progress & Adding to Growth**

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### **Highlights of Interview**

- Strong progress with Tropicana construction.
  - Importance of Tropicana in adding value for Independence shareholders.
  - Details the work completed to date and what remains.
  - Plans to add to Tropicana's Resources/Reserves.
  - Outlines approach to regional exploration around Tropicana.
  - Opportunities to further optimise Tropicana including Havana Deep Pre-Feasibility study.
  - How the Jaguar/Bentley Operation has been improved.
  - Funding Tropicana and Company-wide growth projects.
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**Record of interview:**

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Independence Group NL (ASX code: IGO; market cap of ~\$1,000m) has a significant growth asset with a 30% stake in the Tropicana Gold Project Joint Venture (AngloGold Ashanti 70% and Manager), which is currently under construction. Can you summarise recent progress? What percentage of the project is complete and when do you expect the project will be completed?

**Managing Director, Chris Bonwick**

As at 30<sup>th</sup> September 2012 the Tropicana Gold Project was 64% complete.

A key future milestone is the completion of all bulk earth works and final pouring of concrete. We expect this milestone to be reached by Christmas this year.

The project is currently tracking on time for the first gold pour in the December Quarter 2013.

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What is the importance of Tropicana in adding value for Independence shareholders?

**Chris Bonwick**

Tropicana will rank as Australia's fifth largest gold mine based on the planned 470,000 to 490,000 ounces of gold (100% project basis) per annum during the first three years of production. The commencement of substantial gold production will achieve our near term objective of having diversified sources of cash flow for the Company. The current mine development and the exploration potential within the very large prospective Tropicana land holding (which is just under 14,000 square kilometres) fits with our long term objective of

developing assets that can produce at lower than average cash costs, within projects that have plenty of exploration upside and a mine life that extends beyond the volatility of short term economic cycles.

The potential within the project is tremendous: Tropicana is a true greenfields discovery in a new Australian gold province. The mine currently has a life of 10 years, based on current Ore Reserves, and we expect this to grow. The project has demonstrated a track record of progressive Mineral Resource growth since its discovery in 2005. Importantly, prospectivity within the near mine environment and the region remains high.

Based on the 2010 Bankable Feasibility Study (BFS) parameters, Independence Group's share of gold production is expected to be 141,000 to 147,000 ounces of gold in the first three years at cash operating costs including royalties of A\$580-600/oz.

In the current strong gold price environment the project is expected to deliver a substantial increase to the Company's long term earnings. Tropicana provides us with a platform to deliver on our corporate vision of creating a great Australian Mid Cap mining company. This will allow the potential to pay substantial dividends to shareholders.

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Can you give more detail on the work that has been completed and can you summarise the main steps remaining in construction?

**Chris Bonwick**

Specific construction items such as mine access roads, internal roads, airstrip, accommodation village, administration facilities, steel framed buildings and mining services infrastructure have been completed.

The main steps remaining in plant construction are the final completion of tankage, structural steel work, piping and electrical installation. In terms of infrastructure, completion of the process water supply, power generation and tailings storage facilities are the main items remaining.

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What will be the ramp-up schedule from first gold to full production?

**Chris Bonwick**

Project scheduling provides for a 3 month commissioning program to reach target production.

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Have any significant obstacles been encountered and are any major hurdles anticipated?

**Chris Bonwick**

One early obstacle in the development of the Tropicana project was its remote location. This has been overcome through the construction of a 220km long access road that connects Tropicana to Kalgoorlie via existing roads north east of the mining hub.

General skilled labour pressures, felt throughout Western Australia in particular, have been managed by a range of effective measures including offsite fabrication strategies and provisions to retain a quality workforce. Such provisions include the construction of a premium site accommodation village and the use of 100 seat jets to fly personnel to the operation through the early development of the Tropicana aerodrome which allows a convenient 1.5 hour flight from Perth.

The project has been through a detailed and rigorous environmental approvals process. The AngloGold Ashanti team has done a great job in working successfully through this.

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Managers of mining projects often miss time schedules. How confident are you that the Project will be completed on time? What are the main risks to meeting the schedule?

**Chris Bonwick**

Project development is currently tracking on time. Having a competent project management team (Lycopodium and AngloGold Ashanti) with previous build experience on similar scale projects is an important part of risk mitigation.

The main challenges to successfully meeting the schedule include industrial relations, contractor productivity and uncontrollable items such as an extreme weather event.

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In your recent presentation you indicated that Mineral Resources at Tropicana (100%) had increased from 5.01 million ounces to 6.41 million ounces of gold and Ore Reserves had increased from 3.45 million ounces to 3.91 million ounces of gold. From where did the growth come and from which deposits? What work is being carried out to increase Tropicana's Resource and Reserve base?

**Chris Bonwick**

The most recent increase in Mineral Resources at Tropicana (November 2011) was primarily due to the inclusion of the Havana Deeps mineralisation in the estimates. The Havana Deeps mineralisation extends for a significant distance below the proposed Havana open pit. Drilling has targeted mineralisation associated with the development of high grade shoots. Much of the work completed to date has focused on a shoot below the southern end of the proposed Havana open pit.

Independence Group recently announced (see ASX announcement 26/10/2012) significant new gold mineralisation in a potential shoot position beneath the northern part of the proposed Havana open pit, which included 18m at 5.4g/t gold. It is significant that this mineralisation was intersected approximately 800m down plunge from the base of the northern Havana proposed open pit.

The most recent Ore Reserve increase announced by AngloGold Ashanti in July 2011 was due to the inclusion of the Boston Shaker proposed open pit in estimates and an increase in the gold price used in pit optimisations to A\$1,210 per ounce.

A new Mineral Resource estimate is being developed and will be finalized and released in coming months. In calendar 2013 the Tropicana JV has allocated A\$13 million to brownfields exploration around the current proposed open pits.

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Can you explain your approach to regional exploration in the areas surrounding Tropicana? What main intersections have you returned? What anomalies have you identified? Is there a prospect of another Tropicana?

**Chris Bonwick**

Much of the Tropicana JV tenure is covered with sand which masks the underlying geology. That is probably one of the main reasons why the mineralisation remained undiscovered for so long. The JV partners are exploring in a new gold province, so we have to build our geological knowledge and understanding of the processes that formed the large Mineral Resources we have delineated to date. A multidisciplinary approach to the drill targeting of regional prospects is used, which heavily relies on geochemical sampling and very broad spaced shallow drilling to delineate areas of anomalous gold and interesting bedrock geological information.

North of the Tropicana deposits there are several prospects that are generating tantalizing results. These include 12m at 5.6g/t gold at the Voodoo Child prospect (45 km north of plant site), 1m at 13g/t gold at the Black Dragon prospect (30 km north), 2m at 2.1g/t gold from the Double Vision prospect (7 km north), 2m at 9.3g/t gold at the Hat Trick prospect (2.5 km north) and 5m at 4.0g/t gold at the Springbok prospect (2.5 km north). To the south of the Tropicana deposits encouraging results include 4m at 10.8g/t gold from the Rusty Nail prospect (6 km south of plant site), 12m at 2.5g/t gold from the Screaming Lizard prospect (11 km south), 1m at 1.9g/t gold at the Monsoon prospect (20 km south), 4m at 2.2g/t gold at the Don King prospect (30 km south) and 2m at 5.3g/t gold at the Iceberg prospect (35 km south).

Given the very large strategic land holding at the Tropicana project, coupled with widespread gold anomalism, the potential for future successes remains very high. Despite a significant focus on the current mine development there is a substantial, well-resourced, exploration program budgeted for the 2013 calendar year to advance the regional prospects.

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Is there potential to further optimise the project? Are there any areas of upside for the project emerging?

**Chris Bonwick**

There are several avenues available to optimise or enhance the project in the future. One of the clearest opportunities is to maintain the planned elevated production profile of the first three years for a 10 year plus time frame. This can be achieved through the development of an underground operation that could be operated in parallel with the early stage open pits to strategically maintain a potential production profile of 480,000 to 500,000 ounces of gold per annum (100% project basis) for 10 years or more. This would depend on Mineral Resource to Ore Reserve conversion rates and continued exploration success. Other potential optimisation or improvement opportunities include increased plant throughput, automation of mining activities and using gas in power generation. If we consider plant throughput, the Tropicana processing plant has been conservatively engineered to treat 5.8 million tonnes of fresh rock per year. Opportunities to blend oxide and different hardness of fresh material provide one option for potential incremental throughput increases. Any future changes to the current plant design to achieve further optimization or improvement would involve a careful assessment of capital expense and value creation.

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Can you give more detail on the Havana Deeps Pre-Feasibility study? Progress and immediate aims? Potential benefits?

**Chris Bonwick**

The Havana Deeps prefeasibility study is examining the timing, scale and parameters of an underground mining operation below the open pits that were designed as part of the 2010 BFS. Specifically the study is focused on an area below the Havana pit that makes up a small part of the extensive mineralised shoots which extend over 2km down plunge from the proposed open pits. The current underground Mineral Resource, which was updated in December 2011, contained 1.63 million ounces of gold. Since then there has been continued encouraging exploration results from potential underground positions. Given the depth of mineralisation defined under the southern part of the Havana open pit, we believe the current underground potential remains very high below the northern part of the Havana, Tropicana and Boston Shaker open pits where higher grade shoots have all been intersected in drilling.

The Havana Deeps prefeasibility study is scheduled for completion mid-2013. The results of this study will be very important in examining the trade-off between the depth the open pits are mined to and the timing of any underground operation to supplement open pit ore feed.

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You've outlined that part of the Company strategy is to diversify sources of cash flow. In addition to Tropicana, another significant new project for Independence was the acquisition of the Jaguar/Bentley Operation. However, this has performed below expectations. Can you outline recent performance and how you have improved the operation?

**Chris Bonwick**

In order to address the under-performance of this Operation we have focused on two aspects of the business. Firstly, targeting consistency of production, backed by delivering to a rigorously developed and disciplined mining plan, and, secondly, efficiency and cost reduction.

With regards to consistency of production, a significant amount of focus and resources are being placed on mining planning which is resulting in a more predictable production outcome and a greater understanding of impedance to production. Actions are then investigated and introduced to remove the impediments. Experienced engineering staff have been allocated to the operation and the integrated use of modern mine planning software is allowing the process to be dynamic.

Independence Group is very aware of the current cost environment. We have recently reviewed all our cost areas and taken appropriate action to reduce them. With production consistency, our fixed cost base will also be more consistent at the Jaguar/Bentley Operation. We have introduced into day to day operations the evaluation of each tonne of ore in the ground to determine its financial return post concentrate sale. Each tonne mined must create value, not destroy value. More recently we have been speaking with our major suppliers with a view to driving down unit costs. Every proposed dollar of expenditure must be justified.

This drive for performance is extended across our whole business, which includes the Long Nickel Mine and our corporate office. It is important for my fellow Independence shareholders to note that this year I declined to accept my short term incentive bonus and the other Directors and I agreed that a salary increase for me was not appropriate. I have taken this action because of the under-performance of the Jaguar/Bentley Operation, which has been compounded by a significant drop in commodity prices over the year.

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How can you improve the Jaguar/Bentley Operation in the future?

**Chris Bonwick**

The key to continued improvement is consistency of production and costs, as indicated in my previous answer. In addition to this we are developing a far more detailed understanding of the orebodies at Bentley for example, to ensure that we extract as much of the intrinsic value as possible. The use of the recently commissioned Heavy Media Separation Plant also allows us to upgrade the value of the mined ore by rejecting a portion of the inherent waste/gangue material, and then treat the beneficiated portion to improve the overall feed grades into the concentrating facility. With improved head grades, unit costs or costs per pound decrease and metallurgical recoveries are positively influenced. Improvements are also expected in the area of reliability of the key mining fleet, which has historically been an issue at the operation. This improved reliability and reduction in maintenance costs will also positively influence our costs.

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Will you be able to fund your share of Tropicana development, while also funding all your other Company-wide objectives to continue the strong growth profile?

**Chris Bonwick**

We do not envisage any issues in funding our share of the Tropicana development. One of Independence Group's core strengths is how we have generated a strong pipeline of development and exploration opportunities within the Group. With unique assets such as our share in Tropicana and the De Beers Australia database and sample archive, we believe we are one of a handful of companies which are trying to find the "big one" in order to reward our shareholders. Even with the capital outlay to fund our share of Tropicana we intend to maintain a disciplined, sustainable, investment in our exploration and development projects.

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Thank you Chris.

**Relevant Historical Tropicana ASX Announcement Summary**

IGO 26/10/2012 ASX Release – Significant New Gold Intercepts Beneath Proposed Tropicana Open Pits

IGO 11/11/2010 ASX Release - Tropicana Gold Project Development Approval (real terms as at 2010).

IGO 29/11/2011 ASX Release - Open Pit and Havana Deeps Underground Resource Estimates

AGA 27/7/2011 ASX Release - Reserve Estimate

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