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Lodgement of Open Briefing

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Record of interview:

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Independence Group NL recently announced an upgrade of Long Nickel Mine reserves to 1,185,000 tonnes at 4.1% nickel for 48,300 tonnes of nickel metal, a 136% increase after taking FY04 production into account. Can you summarise how you've been able to increase reserves?

MD Chris Bonwick
In March 2004, Independence announced a major drilling programme with the aim of increasing our reserve base to 50,000 tonnes over 12 months. We just about achieved our target in the six months since then. We've had success in a number of areas. We were able to increase the Victor South reserve base to 16,500 tonnes of metal, we've added Long pillars to the reserves which were previously thought to be unrecoverable and we've also defined reserves in various other areas through additional drilling and interpretation. Since opening the mine, we've mined a significant amount of nickel ore outside our reserve boundaries. Extensions to this mineralisation also added to the increase in reserves.

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What are your revised reserves targets?

MD Chris Bonwick
There is scope to increase reserves at the Long Nickel Mine to 60,000 tonnes of nickel metal, even after taking depletion from mining into account. There are several nickel blocks not currently in our reserve base that we think we can put mining plans around after we do more drilling and evaluation. We've committed

$2 million this year for exploration at Long - we spent $2.8 million last year and were able to add over 28,000 tonnes of nickel metal to reserves after mining depletion.

For the longer term, at Victor South we've identified geophysical TEM anomalies to the south which we'll be following up in the next few months. We've committed to an exploration decline to evaluate the Long South target and there's potential to find significant new nickel deposits in both those areas.

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How does the quality of the upgraded reserve compare with reserves previously mined by Independence?

MD Chris Bonwick
Our mining schedule is driven by geotechnical issues so we don't manipulate or high grade our mining. So the current reserve grade of 4.1% compares very favourably with our past production. There are some very high grade blocks within the Victor South ore body, and some of the pillars in the Long ore body that we've just included in the reserves are grading around 4.8%. We expect to be able to mine at a reasonably consistent grade of around 4%.

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Independence also has several resource extension targets including the Long South target which is down plunge from the Long Shoot. As at 30 June 2004, resources were 81,200 nickel tonnes compared with 82,700 nickel tonnes as at 30 June 2003. Can you talk more about your expectations for resources growth? What is the cost and timing of the exploration decline?

MD Chris Bonwick
Nickel ore at the mine is contained in two lava channels. The upper channel contains the Gibb and Victor deposits, the lower contains the Long deposit. There is room in both channels to find more nickel on our tenements.

There's certainly potential to find more Victor South-type targets which already has over 20,000 tonnes of nickel metal in resource over a 170 metre strike length. That's quite a lot of metal over a relatively short strike length. TEM surveys indicate there is a large conductor south of Victor South. We literally have hundreds of metres still to test to the south of Victor South.

The Long South target is very exciting. Long itself has produced nearly 4.9 million tonnes at 3.7% for more than 180,000 tonnes of nickel metal and certainly there has been very little exploration south of Long along the lava channel. The few holes that WMC and Independence have drilled have given some encouraging intersections such as 0.76 metres at 10% nickel and 3.6 metres at 3.3% nickel. We also intersected remobilised nickel in sediments (0.7m at 4.8% nickel) and we've also confirmed that the lava channel continues to the south of Long. We've drilled rocks with greater than 40% MgO which are levels typically associated with lava channels.

We're expecting the exploration decline to cost around $4 million and we expect to complete that within 12 months. We'll probably spend about $1 million on drilling the lava channel from the decline. That will be part of the total $2 million exploration budget at the mine. We believe there could be some big blocks of nickel there and we've got the technology to find them quite cost effectively.

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Independence Group NL announced a net profit after tax of $17.3 million (EPS of 24.5 cents or 17.7 cents fully diluted), up from $1.4 million last year. You stated that the payment of dividends will be considered when the new reserve figure is known. What's the latest with that deliberation?

MD Chris Bonwick
The company is extremely happy with our new reserves statement and the life of Long Nickel Mine has increased to at least five years. Paying franked dividends is a major objective for Independence but it's also important that we can make consistent dividend payments. We're working on our life of mine plan and, when that's complete, we'll run a range of nickel price scenarios through our financial model. We're confident that the forecast cash flow will be sufficient to support consistent dividend payments.

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For FY04, IGO's contained nickel production was 6,843 tonnes. For FY05, Independence is budgeting to increase that to 8,900 tonnes of contained nickel, with attributable nickel production of around 5,300 tonnes after allowing for the off take agreement with WMC. Do you expect to alter these production forecasts now that you have a new ore reserve and will soon have a new mining plan?

MD Chris Bonwick
We believe that the new mine plan will allow us to comfortably meet those forecasts, which assumes ore production of 222,000 tonnes per annum. We've spent a lot of time on the mine plan and we've had the benefit of a full year's production to fine tune our costs and our mining strategy.

We're currently ramping up production at Victor South and I think that the main opportunity to increase production beyond this year is if we can find another stand alone operation like Victor South. We're hopeful that Long South could provide that discovery.

Within the Long ore body we're operating air leg mining in the upper levels and we have mechanised mining in the lower levels. We don't really want to ramp up production in those areas because we're very proud of our safety record and that's been partly due to mining the ore body at about half the rate that WMC did but with about a third the workforce. This has considerably reduced seismic activity in the mine.

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What are the main risks to achieving the production forecast? How is the ramp-up of Victor South going?

MD Chris Bonwick
We've undertaken a major risk study for the mine and other activities as part of our corporate governance procedures and we really haven't identified any major risks. We have very well defined reserves, we have consistent production, a thorough understanding of the blocks we're mining and we have over 20 headings to produce from. The number of headings will increase once we develop some more in Victor South. So we have the flexibility to maintain production.

The ramp up is going very well at Victor South. Parts of it will be in the development phase for a few more months. We're currently developing the upper ore body and we'll start setting up ore blocks for mining there shortly.

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For FY04, cash costs at the mine were A$1.98/lb of nickel produced with a total cost including depreciation, amortisation and rehabilitation of A$2.49/lb (cost per creditable pound A$3.32 and A$4.18 respectively). What cost trends do you expect for this year? What cost initiatives are in place?

MD Chris Bonwick
We're one of the cheapest nickel sulphide producers in Australia but we're always looking at ways to reduce costs. We have a number of cost initiatives in place. Lower unit costs of production will be a consequence of increasing production because a number of our cost items are fixed.

We currently purchase concrete from a contractor and we use quite a lot in the mine but we're building our own plant on site and we believe that could save around $400 per tonne of concrete. We've also just bought a 55 tonne truck which will reduce haulage costs from the upper decline and we're always looking at ways to improve mining dilution, although we've already been very effective in that area because we have a very experienced team that has been able to achieve a high mined grade in difficult conditions.

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In summary, what do you expect will be the main positive and negative influences on profit for FY05?

MD Chris Bonwick
The major influence on our profit this year will be the nickel price and that, of course, can have either a positive or negative impact. It's very hard to predict but there are certainly some fairly robust nickel price forecasts out there. Some of the larger producers have recently stated that producers won't be able to supply the expected demand growth even with Ravensthorpe, Goro and Voisey's Bay coming on line in the next few years. The nickel price will really be determined by the strength of the major world economies and China seems to be bubbling along nicely. There's certainly a great need for nickel in China with the infrastructure development planned, such as new power stations, water distribution and also new venues for the Olympics.

Independence should make a good profit this year, even if nickel prices fall, because of our low cost structure. We've run an A$12,000 per tonne nickel price through our financial model and we still make a reasonable profit so we're not as sensitive to the nickel price downside as many of our peers.

The main positive influences on profit this year will be our higher production, an expected reduction in unit cash costs and a lower unit depreciation charge as a result of the higher reserve base.

We don't see any significant negative influences. The main challenge will be to steadily ramp up production but we're happy with how that's progressing.

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What are the other significant events for investors to watch out for this year at Independence?

MD Chris Bonwick
I'll start with our exploration strategy at the Long Nickel Mine. We will follow a similar, systematic approach to last year where we had several drilling campaigns over three or four months, followed up by a period of analysis and then reserve definition. It would also certainly be a positive event if we could find another large ore body along strike from Long and/or at Victor South.

We're just starting to drill some of our greenfield gold prospects. We've been working up some large gold plays in Australia over the last couple of years and access has just been granted to a number of those tenements.

Our regional nickel exploration is also going extremely well. We spent a lot of time working up some regional targets in Western Australia and we entered into a couple of joint ventures covering quite large areas. We're generating some interesting nickel anomalies over those. We also have our own geophysical crew now and they'll be systematically going over a lot of those anomalies as they look for new nickel deposits.

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For FY04 net cash inflow from operating activities was \$28.1 million, up from \$5.3 million. At end FY04, cash was \$18.4 million and debt was \$12.7 million. What are your exploration and capital expenditure budgets for this year?

MD Chris Bonwick
Capital expenditure at the mine is budgeted at \$4.7 million and that includes the purchase of the large truck, the concrete plant and a number of smaller items. We've budgeted to spend around \$10 million on exploration, comprising \$2 million at the mine, \$2 million on regional nickel and \$2 million on regional gold, and \$4 million on the Long South exploration decline.

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IGO will prepare its first fully International Financial Reporting Standards compliant financial report in the year ending June 2006. In which areas do you expect the most significant impact?

MD Chris Bonwick
We've been doing a lot of work on the impact of the new standards. We believe that our accounts could be affected in two main areas - the treatment of capitalised exploration expenditure and commodity hedge contracts.

Australia has not yet adopted an IFRS-equivalent exploration expenditure standard, so no-one knows yet what effect this may have on the mining industry in Australia. However, Independence has a fairly conservative balance sheet, in that we review all exploration expenditure and perform write-offs every quarter, so we don't envisage this having a material impact on us. It could be very serious for some of the smaller explorers or companies carrying large exploration assets on their balance sheet.

The treatment of commodity contracts by the IFRS-equivalent standard may require all companies to reflect the current marked-to-market value of commodity hedges in the books, as opposed to the current "disclosure only" approach.

We have had conflicting messages on whether this will be the case, so we'll seek advice during the next 6 months or so to ensure we're ready for adoption in 2005/6. If this interpretation is correct, any nickel contracts "out of the money" at the time of adoption will have a negative impact on the balance sheet. We won't know the effect of this until we know the market price of nickel on 30 June 2006 which is when the standard would first affect our balance sheet.

We don't anticipate the new international accounting standards to have any other material impact on Independence.

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In the last Open Briefing you outlined your best gold exploration projects and said that IGO will be quite active in gold exploration this financial year. Can you outline where the main activity will be and roughly when you expect results to come in?

MD Chris Bonwick
Independence has a number of very prospective gold project areas but probably the most advanced at this stage is Tropicana East JV (Anglogold earning 70%). Anglogold has returned some interesting intersections including 10 metres at 2.3 g/t and 7.2 metres at 2.2 g/t gold in the same hole. They are about to embark on a major drilling programme to look at that system which extends over about 5km. They've also been doing a lot of regional geochemical sampling and are finding other anomalies in that area.

We're just about to start drilling some gold anomalies at Tropicana West ourselves for the first time. We've also been drilling up at Goldsworthy. It's a very large block of ground and we're basically chasing a number of the faults to the north east of the Wingina and Indee gold discoveries. We've found that these structures are strongly mineralised with gold and we're getting values up to 4 g/t using wide-spaced drilling. We've been back up there doing some infill drilling and should have the first results fairly soon.

We have a project in the Western Australian wheat belt called Dalwallinu (IGO 100%) south of the Mt Gibson Gold Mine (which is a plus 1 million ounce field) and we're detecting strong, large gold anomalies there. We also have a number of other advanced gold plays which we've just been granted access to for drilling.

So we're really starting to step up gold exploration this year and we expect drilling results to flow over the next few months.

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Thank you Chris.

For further information on Independence Group please visit www.independencegroup.com.au or call Chris Bonwick on (08) 9367 2755.

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