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Independence Group NL
Suite 9, PDM House
72 Melville Parade
SOUTH PERTH, WA, 6151

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Independence Group NL recently announced a net profit after tax of $35.0 million for FY06, a rise of 67% over the previous corresponding period (pcp). Can you outline the major influences on the profit increase?

MD Chris Bonwick
The profit increase was mainly due to higher nickel prices, as well as the fact that during the year we delivered into the last of our low value hedge contracts which were left over from the original bank financing of the Long Nickel Mine acquisition. This meant that we were able to deliver more nickel into spot and at current prices and production levels we are receiving an extra $4 million per month in revenue.

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EBITDA increased by 51% to $59.7 million. Can you explain why cash flow from operating activities fell by 6% to $44.3 million?

MD Chris Bonwick
Cash flow from operations shows the actual cash movement between June 2005 and June 2006. The balance of receivables for nickel delivered during April 2006 to June 2006 is not included in the cash flow as those receivables will be reflected in the FY07 cash flow. Total operating costs, including corporate costs, increased by 13% or $5 million, which isn't too bad considering we added about 14 new employees to the mining and exploration teams during the year and in light of the general cost pressures suffered by the industry over the period.

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As at 30 June 2006, cash and net receivables was $51.4 million. Total dividends declared for FY06 were 9 cents per share (8 cents in the pcp). What are your major expenditure commitments for this year?

MD Chris Bonwick
Apart from dividends and income tax payments, our main commitments this year are the cost of completing the Long South and McLeay declines and subsequent drill-outs of these areas together with the regional exploration programs for our gold and nickel projects. The cost of this exploration is expected to be about $13 million.

We're also replacing some hire equipment and some of our mining fleet originally purchased in 2002, which we expect will cost about $7 million.

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Independence produced 8,897 nickel tonnes in the year to June 30, 2006 from 238,551 tonnes of ore at an average grade of 3.73% nickel and at a cash cost of A$3.75/lb payable nickel. What do you expect for FY07 in terms of ore, grade, nickel tonnes and cash cost?

MD Chris Bonwick
In FY07, we expect to produce between 8,600 and 8,800 tonnes of contained nickel metal at a grade of around 4% Ni. Cash costs are forecast to rise from A$3.75/lb in FY06 to around A$3.90-4.10/lb in FY07, part of this increase is due to higher state royalty payments due to the higher forecast nickel price.

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How have the operations performed so far over the September quarter?

MD Chris Bonwick
So far in the September quarter we are down about 180 tonnes of payable nickel metal compared to budget. This was due to scheduled shaft and loading pocket maintenance taking a little longer than we expected, combined with unusually high truck and bogger maintenance. Development of the high grade McLeay Shoot 1 ore body was also behind schedule due to structural complexity which required additional infill diamond drilling to resolve. This problem has been sorted out and we have just commenced mining high-grade nickel sulphides in this area, although this was about a month behind schedule.

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Independence has just updated its resources and reserves figures for the Long Nickel Mine. Resources now stand at 1,367,000 tonnes at 5.6% nickel and reserves now stand at 1,114,000 tonnes at 4.2% nickel. Can you briefly outline your resources and reserves replacement history? What is Independence's current mine life?

MD Chris Bonwick
At 30 June 2006, we had 76,700 tonnes contained nickel metal in resources and 46,800 tonnes contained nickel metal in reserves. When we started production in October 2002 our reserve base was 26,800 tonnes of nickel metal. We've now mined 27,618 tonnes to the end of 30 June 2006. If past production is added to the current reserves, our reserve replacement over that period has been 278%. Similarly, our resources have increased by 151%.

The current mine life based on our new reserve is out to at least 2011, but this doesn't include the McLeay extension drill results we recently announced, which again we expect will add to mine life.

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What's the current resource/reserve for McLeay?

MD Chris Bonwick
McLeay currently has a resource of 20,800 nickel tonnes and a reserve of 13,200 nickel tonnes. These figures don't include significant extensions which we've recently intersected from extension drilling. (South of the current reserve boundary we intercepted 16.3 metres at 14.3% nickel to extend Shoot 2 and 9 metres at 4.6% nickel to extend Shoot 1). As previously stated, both of these intercepts are south of our current reserve boundaries.

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How large could the McLeay deposit be?

MD Chris Bonwick
Judging from production and reserves to date, McLeay looks as though it will yield about 50 tonnes of nickel metal per metre of strike length. So if we can prove up another 200 metres of strike, there's potentially another 10,000 nickel tonnes. 300 metres or 400 metres of strike will give proportionately more contained nickel. What we haven't determined is how far south the deposit continues, but we are systematically driving south and then drilling for extensions.

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What other opportunities are there for Independence to extend the mine life at Long?

MD Chris Bonwick
There are two other key targets at Long. The first is Long South where the exploration decline has finally hit the northern end of our original target area. We have been driving towards an area where previous surface and underground drilling intersected 0.76 metres at 10% nickel and 3.6 metres at 3.3% nickel. We drilled south of the intercepts and intersected 2.45 metres at 3.1% nickel. A down-hole TEM survey indicates a TEM conductor south of the mineralisation. We are currently extending the decline another 200 metres south in order to drill test the conductor and test the lava channel further south along strike. We intend drilling again in a couple of months once the next stage of the decline has been completed.

The second major target is Long North where we will be testing for a continuation of the Long lava channel to the north of the main Long ore body. WMC drilled two holes north of Long and, although they hit wide zones of intrusive porphyry, they also hit nickel mineralisation in both holes. WMC reported an off-hole EM conductor adjacent to one of the intercepts. We're just waiting for legal agreements to be finalised with WMC so we can commence exploration.

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Independence also recently announced that new significant gold intersections and the discovery of a new gold mineralised zone indicate that the Tropicana Prospect (IGO 30%) has multi million ounce potential. Can you explain what you currently know about both gold mineralised zones in terms of size, orientation and depth?

MD Chris Bonwick
The Tropicana prospect is a virgin gold discovery in a new Australian Gold Province. It's approximately 4kms long as currently defined and still open along strike. So far, AngloGold Ashanti Australia Limited has discovered two zones; the Tropicana zone which is the original discovery and the Havana Zone further south, which now looks like it could be the larger of the two. Mineralisation seems to be striking to the north-east with a 30 degree dip to the southeast. It's an interesting style of mineralisation. It appears to be Proterozoic in age, cross-cutting Archaean gneiss and is continuous in lateral extent with up to 40 metres in true thickness with grades usually averaging between 2-3g/t Au. High grade zones are also evident that have returned intersections such as 32 metres at 6g/t, however due to the coarse drill spacing, we are uncertain of the shoot dimensions. As well as open-cut, potential exists for underground mining. One of the holes at Tropicana returned a true width of 16 metres at 6.2g/t at around 214 metres vertical depth and we recently announced a similar intercept from Havana of 18 metres at 6g/t including 8 metres at 12.4g/t at a vertical depth of 168 metres.

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You stated that extensive drilling is required to bring the target to a JORC-compliant resource level and that it is anticipated that a JORC-compliant resource will be available in mid to late 2007. Why is it going to take that long to calculate a JORC-compliant resource? What is the forward drilling plan - including infill and extensional drilling?

MD Chris Bonwick
It will take a long time to get an open-cut JORC-compliant resource because it is a very, very large gold system. However, the more rigs and geologists AngloGold Ashanti can get, the faster it can be completed. The drilling to date has been very wide-spaced and four kilometres is a long strike length even just to walk it. AngloGold Ashanti is currently drilling the Havana zone on 200 metre by 100 metre spacings and the Tropicana zone has only been infill drilled down to 100 metre by 50 metre spacings. It is likely that the deposit will need to be drilled on 50 by 25 metre spacings, with 25 by 25 metre spacings in some areas to get it to measured and indicated JORC standard. It also has very good depth potential and we just don't know how far down plunge it extends. Further deep drilling will be required to determine the underground potential.

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You've stated that there are numerous large surface gold anomalies near the Tropicana Prospect and elsewhere in the project area. When do you plan to drill these?

MD Chris Bonwick
There are another eight large surface gold anomalies around Tropicana on which AngloGold Ashanti have completed Stage 1 reconnaissance geochemical drilling. This work has returned some interesting gold anomalism (including 5m @ 3.3g/t Au from the Rusty Nail Prospect) which will require more follow up drilling. Apart from the Tropicana cluster of anomalies there are another three clusters of gold anomalies along the 330 km strike length of the JV tenement package. Some of these are currently being tested by AngloGold Ashanti.

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What's your current expectation on the size of the Tropicana discovery?

MD Chris Bonwick
I can't comment in terms of potential resources or reserves at Tropicana because the drilling has not yet been sufficient to meet the JORC standard. It's a big system with open-cut and underground mining potential as indicated by a number of deep high-grade intercepts. It is definitely a large mineralised system, but we just don't know how deep the mineralisation goes yet.

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Can you give an update on Independence's best opportunities for commercial exploration success at its other projects?

MD Chris Bonwick
We have a very healthy regional exploration program this year with a budget of around $6 million. The nickel exploration encompasses seven projects each containing strong TEM anomalies and we will be systematically testing those throughout the year looking for new nickel sulphide deposits.

We will also be following up some of our high grade gold drill intersections at the Dalwallinu project with some down-plunge drilling. We have generated several large gold anomalies at Cobar and we have also returned some interesting gold intersections at our Mt Padbury project. Certainly this will be a very active year in relation to our regional drilling programs.

One of the other projects we have in our portfolio is a very large magnetite deposit at Goldsworthy. We are currently undertaking a study which will include some deep drilling and metallurgical test work. The beauty of this deposit is that it is relatively close to Port Hedland, power and gas are readily accessible and there is possibly a large fresh water supply within aquifers on the project area. These are some of the key ingredients required to make significant shareholder returns out of a magnetite deposit.

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What is Independence's revenue or earnings sensitivity to the nickel price? What are your operating objectives and what is your view on the nickel market and nickel price?

MD Chris Bonwick
Clearly the current nickel price is much higher than the average prevailing during FY06. At a nickel price of A$30,000/tonne, a 10% increase in nickel price results in a A$10 million increase in annual revenue.

Our major operating objectives are to expand Long's ore reserves, mine life and production base and to keep our operating costs at competitive levels. If we can contain costs we will remain very competitive regardless of movements in the nickel price.

You need to be better than a fortune teller to accurately comment on future nickel prices. The general consensus three years ago was that nickel prices in FY07 would be around US$3.50/lb and it is currently around US$13.00/lb. China is largely responsible for the surge in commodity prices and future prices will be determined by the rate of growth in China and, to a lesser extent, India.

Commodity prices were strong for about 10-15 years after the Second World War when Japan and Europe were rebuilding and I think that current Chinese demand will underpin strong prices for several years, supported by demand from India and other emerging industrialised nations such as Brazil and areas of Eastern Europe. China is currently moving around 25 million people into the cities each year and seems to have a plan to continue this for a number of years. It requires more infrastructure every year in the cities to support this migration. It is conceivable that higher prices (than longer term historical averages) with minor downturns could extend for well into the foreseeable future.

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There have been rumours in the market that Independence is about to launch a takeover bid for company X, Y or Z. Could you comment?

MD Chris Bonwick
We have heard those rumours, but they are all unfounded. We do not want to issue a whole lot of shares through corporate activity unless the target represents accretion in shareholder value. We have not reviewed an opportunity yet that would not have diluted our shareholders and potentially resulted in a longer term decrease in our share price.

The company has grown well by extracting value from our own assets and we believe that there is still a lot more value to add. We need to know the potential of the McLeay and Long South nickel targets, the size, production rates and profitability of Tropicana and whether other current regional exploration projects can deliver mines. We believe that success at any of these targets will deliver far more long term value to our shareholders than a merger or takeover. For instance, if Tropicana is shown to be economic, our 30% share of the profit, combined with that from the Long operations, would dramatically increase our free cash flow and profitability in future years.

We are currently building our cash reserves to continue paying dividends and will probably use some of our cash to pay our way at Tropicana when the pre-feasibility study is completed.

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Thank you Chris.

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

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