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INDEPENDENCE GROUP NL
ASX: IGO



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Independence Group NL (IGO) has on issue around 75 million ordinary shares, 25 million options, 7 million contributing shares and 10 million unlisted options. What's your current net cash position and what amount of cash do you expect to raise from options exercised?

MD Chris Bonwick

As at 30 June 2004, our cash position was \$18.4 million and our debt was \$12.7 million. We will receive approximately \$4.5 million in cash if all of our 20 cent options are exercised. These are due to expire on 31 January 2005.

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IGO recently announced a pre-tax profit of \$25.4 million (unaudited) for the year to 30 June 2004. Earnings per share is estimated at 25 cents per share or 18 cps fully diluted. To what extent has the improved profitability and cash flow been due to higher nickel prices, cost reductions or production growth?

MD Chris Bonwick

We've estimated that around 50% of the increase in cash flow has been due to the nickel price and around 50% has been due to higher grades, higher production and lower operating costs.

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For FY04, IGO's contained nickel production was 6,843 tonnes. What are your production and exploration expenditure expectations for FY05?

MD Chris Bonwick

We've budgeted to increase production this financial year to 220,000 tonnes of ore at 4% nickel for 8,900 tonnes of contained nickel. That means our attributable nickel production should be around 5,300 tonnes after allowing for the off take agreement with WMC. Production will be from the Long Shaft, Gibb South and from the Victor South decline where we expect to ramp up to full production over the next 12 months.

Our regional exploration budget this year for nickel and gold will be around \$4 million and we'll probably spend up to a similar amount at the mine site to try and extend the deposits and to convert more resources to reserves.

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Can you explain the pricing terms under which your nickel ore is sold to WMC? What's your current and budgeted cash operating cost?

MD Chris Bonwick

WMC pays us for approximately 65% of the contained metal we mine. The price is based on the average LME price prevailing in the third month after the month of delivery.

Our cash operating costs in FY04 were A\$3.32/lb and depreciation and amortisation was A\$0.86/lb. We expect costs to fall this year with the higher throughput.

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IGO bought the company-making Long Nickel Mine from WMC Resources in September 2002. Can you describe the current mining operation and known orebodies at Long?

MD Chris Bonwick

The Long Nickel Mine was on care and maintenance and in a wonderful condition when we bought it from WMC in September 2002. The assets we acquired included remnant ore blocks in the Long Shoot, plus associated mine infrastructure, and two deposits drilled by WMC but not mined called Gibb South and Victor South. Underground mining of the Long Shoot began in 1975 and mining of the Victor ore body began in 1994 via a decline.

Victor South was the larger of the two undeveloped deposits and we've just started mining that. We found that the deposit contained a lot more massive nickel sulphide than we first thought and so we decided to push the decline down further and put a drill drive over the top of the ore body. We've been drilling out the deposit over the last quarter with the aim of converting more resources to reserves and we're also finding ore extensions as we predicted.

Gibb South is accessed by an incline from the main Victor South decline and although it's quite a small ore body it has provided some pleasant surprises. We extended the incline and hit some high-grade 20% nickel ore and, although our budgeted grade for FY04 from Gibb South was 3.8% nickel, we actually mined it

at around 6.9%. Initially it had an ore reserve of 1,000 tonnes of nickel metal but we've already mined 1,500 tonnes, with more to come.

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The Long Nickel Mine has historically produced more than 200,000 tonnes of contained nickel metal. What are IGO's current resource and reserve positions and the prospects to add to those?

MD Chris Bonwick

As at 30 June 2004, reserves stood at 23,600 tonnes of contained nickel. Although we mined over 6,800 tonnes during the year, the reserves were depleted by only 3,700 tonnes because nearly 3,000 tonnes came from outside the defined reserves.

We've targeted to have reserves of 50,000 tonnes of nickel metal by the end of this financial year. We expect to release an updated resource and reserve statement in either the September Quarterly or the Annual Report and it should show an increase that probably won't be too far away from our full year target.

We have several resource extension targets at the mine and probably the area getting the most attention is the Long South target which is down plunge from the Long Shoot. We believe it could be another Long-type ore body. We've confirmed that Long South contains a lava channel which is the host rock for nickel sulphide. We've now got enough information to justify putting a decline in from the southern end of Long to get close to the contact and we believe there's still potential for other nickel pods south of Long.

Our second major mine site drilling has been at Victor South where we expect a large increase in reserves based on our evaluation of the current resource of around 20,000 tonnes. We're also evaluating whether we can mine ore from pillars that has not been possible in the past. One of these pillars contains about 115,000 tonnes of ore at 4.8% which is about 5,500 tonnes of contained nickel. If we can mine these pillars it will also add to reserves.

We're also looking at the dilution factors we've applied in our reserve calculations. We think we've been a bit conservative and that should have a positive impact on reserves.

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How has Independence improved the operation?

MD Chris Bonwick

When Long was last operating, WMC employed contract miners. We've moved to owner-operated mining and also re-introduced air-leg mining. We've therefore been able to mine some of the narrow but high-grade blocks and also reduce dilution. Air-leg mining has allowed us to mine higher grades than budget and also to mine a significant amount of nickel outside ore reserves. We've got around eight people working in the air-leg team and they contributed about 20% of the nickel metal mined last financial year. We'll also use air-legs to mine some high grade areas from Victor South in the current quarter.

We've also done a lot of geotechnical work and that's enabled us to safely open up a number of headings, vary the extraction sequence and keep the grade consistent. We're also using a lot more shotcrete in the mine and that has worked very well. In fact, this year we're building our own shotcrete plant and we expect some large operating cost savings from that.

We're working with about a third the workforce that WMC employed but we've been able to produce at about half the rate. We're operating very safely and have only had one lost time injury which involved one day off work.

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What mining or geological challenges does Long Nickel Mine have?

MD Chris Bonwick

Long is seismically active and you have to be careful when mining certain parts of the ore body. We have procedures in place to make sure these areas are meshed and shotcreted before we mine them. We also have a seismic monitoring system and we won't allow mining until seismic events have settled although most of the events aren't very strong and we're able to mine safely and efficiently.

The ore body itself is not that easy to mine. It averages around 2.6 metres in width but it can vary from a few centimetres to four or five metres. It pinches and swells in three dimensions and we're also finding a lot of nickel ore that has been squeezed elsewhere. However, although it's geologically challenging, our mining costs are very low at less than A\$2/lb of nickel, and that's a credit to our team of geologists, engineers and miners who have been able to successfully follow the ore body.

Another challenge for Long is to find some more new nickel ore shoots, but we're confident of doing that as I've said.

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Do you expect nickel prices to remain above long term trend prices in the foreseeable future? What's your hedging policy and your current hedging position?

MD Chris Bonwick

Predicting the nickel price is extremely difficult but some of the lead indicators suggest that the nickel price will remain at above long-run, average prices for the foreseeable future.

Demand for nickel remains strong but few large projects are coming on in the next couple of years including Voisey's Bay, Goro and BHP's laterite project. If the oil price remains strong, then the underground nickel miners should enjoy a cost advantage over the open cut hard-rock mines and lateritic deposits which are lower grade and therefore have to move a lot more material, and require big energy inputs to treat in the case of lateritic ores.

We have 2,070 tonnes of nickel hedged at A\$12,186 per tonne for this year. In FY04 we delivered 1,998 tonnes into hedging contracts at A\$12,385 per tonne.

This hedging was required when we raised our finance for the Long acquisition. We're now working on a new life of mine plan with an extended mine life and we'll probably hedge enough to cover our operating cost although the Board hasn't made a firm decision. We've also been doing some hedging when the price spikes to certain levels.

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Can you outline your approach and prospects for greenfields exploration?

MD Chris Bonwick

We have a large amount of highly prospective exploration assets. Although the Long nickel acquisition has caught the attention of investors, Independence actually listed on the basis of its exploration assets. We realised we needed cash flow from a producing asset to fund our exploration.

We believe there are still a lot of large ore bodies to discover in Australia. Most of the easy ones have probably been found in the known belts so we're looking for ore bodies under cover that the old prospectors couldn't find. We've developed some new geophysical technologies to use in the established exploration belts.

The other approach we're taking is to look for new ore bodies in under-explored areas. One of the assets we secured pre-float was the WMC diamond division's exploration database, although we're actually using it to look for nickel and gold because it has identified a number of interesting anomalies. So we have a head start in these under-explored areas.

We've delineated nearly 20 gold anomalies around Australia. We've drilled tested five and all five have returned encouraging results.

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What emphasis have you placed on gold exploration? Which are the more prospective gold projects?

MD Chris Bonwick

At the Tropicana JV (Anglogold earning 70%), we've done some reconnaissance drilling which has returned intersections such as 10 metres at 2.3 g/t and 7.2 metres at 2.2 g/t gold. We've also found gold up near Tom Price in an area where gold hasn't been discovered before and we've also discovered quite a large mineralised gold system at the Goldsworthy JV (IGO 80%) which is along strike from the Indee gold camp near Port Hedland. We've also obtained some good soil anomalies at the Dalwallinu Gold Project (IGO 100%) in the wheat belt region near the Mt Gibson Gold Mine. That was through cover but had never been drilled. Other gold targets where we're currently active include Castle Creek in the Kimberley and the Wackilina Gold Project south of Port Hedland.

Our broad objective for gold exploration is to find two deposits which contain at least 500,000 ounces each and are capable of supporting an operation with production costs of less than A\$350/oz. We'll be quite active in gold exploration this year.

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Can you please explain the chromite analysis exploration tool you're using to explore for nickel sulphides? Why do you think it will be successful exploring for nickel when it's traditionally been used in diamond exploration?

MD Chris Bonwick

One aspect of diamond exploration involves searching for a certain chromite mineral which is an indicator of diamondiferous kimberlite. Our team has developed a process that identifies chromite grains that have formed in ultramafics which carry nickel sulphides. We believe it's the first time in the world this technique has been used and it's a major exploration breakthrough.

By using the WMC and De Beers diamond databases, to which IGO has exclusive access, we've been able to establish a relationship between the location of these chromites and known nickel camps such as Kambalda, Cosmos and Widgiemooltha. We've identified more than 40 new nickel targets from the database. We've tested some of the targets and have found nickel anomalies from soil samples and from EM surveys.

There hasn't been that much exploration for nickel since the nickel boom days and the industry's understanding of how a nickel deposit forms has now changed.

We're confident of making at least one new nickel discovery that would have a significant impact on shareholder wealth. Our preference is for high-grade, open-cut nickel mines close to the surface but we're also trying to tie up tenements close to known belts where there is potential for blind nickel shoots. We're starting to get approaches from other companies asking to use our technology on their ground.

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Independence bought the Long Nickel Mine from WMC Resources for \$15 million. Do you expect similar asset purchase opportunities to emerge from the major mining companies? What are your longer term growth objectives for IGO?

MD Chris Bonwick

Our aim is to grow into a mid-sized, multi-commodity Australian mining house. To do that we've got a three-pronged approach. One is grass roots exploration, another is to work with companies to help fund and develop their existing assets and the third approach is growth by acquisition.

We'll be very careful to invest our cash wisely and will only do so when an investment clearly adds to shareholder wealth. We've been approaching companies to look at certain assets but we've found that most assets prices are still very high. Exploration therefore might be the most cost-effective growth option for us in the short to medium term. We have a philosophy of evaluating a large number of projects. We can turn them over fairly quickly and there are only a few that make it to the interesting stage.

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Thank you Chris.

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For further information on Independence Group please visit
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