



INDEPENDENCE GROUP NL
ABN 46 092 786 304



**Company
Insight**

the intelligent market update

Independence Group NL

Date of Lodgement: 18/11/10

Title: Company Insight. MD on Tropicana Approval & Company Outlook

Highlights of Interview

- Explains Economics of Tropicana
- Exploration Upside at Tropicana, Long & Greenfields projects
- Funding Position after Capital Raising
- Earnings & Operations Outlook

Record of interview:

companyinsight.net.au

Independence Group NL (ASX code: IGO; market cap of ~\$800m) recently announced the development approval for the Tropicana Gold Project (IGO 30% and AngloGold Ashanti 70% and manager/operator). Can you summarise the headline operational and financial numbers? What are your major financial assumptions?

Chris Bonwick

Our major financial assumptions are A\$1,300/oz for the gold price, an exchange rate of A\$1.00 = US\$1.00 and an oil price of US\$85/barrel.

The information I will provide is on the basis of a 100% project interest. A blend of oxide and fresh ore will give throughput of 6.0 million tonnes per annum and the fresh ore only milling rate should be around 5.8 million tonnes per annum. The JV expects to recover approximately 3.45 million ounces of gold over a 10 year open pit mine life with cash costs (including royalties) of between A\$710 and A\$730 per ounce in real dollar terms.

Production in the first three years is estimated at 470,000-490,000 ounces per annum at cash costs of production ranging between A\$580 and A\$600 per ounce (including royalties). This

profile will enable a 2.2 year capital payback, based on a gold price of A\$1,300/oz which is much faster than we had anticipated in the Pre-feasibility Study. The life of mine waste to ore ratio has improved with a reduction from 6.2:1 to 5.5:1.

The estimated capital cost using contract mining is estimated at A\$690-A\$740 million (including working capital) in real terms. We plan to commence road construction in the June quarter 2011 and first gold should be produced in the December quarter 2013.

companyinsight.net.au

Can you give more detail on the various mining areas? When might you add to the Mineral Resources?

Chris Bonwick

The Tropicana Bankable Feasibility Study (BFS) comprises three open pits - Tropicana, Havana and Havana South. The pits contain Proven and Probable Reserves of 48 million tonnes at 2.2 g/t gold (containing 3.4 million ounces of gold). This reserve does not include Inferred material in the BFS which accounts for a further 400,000 ounces. The BFS also does not include any potential ounces from the Boston Shaker open pit or Havana Deeps gold mineralization which are currently being drilled out. We have recently completed Scoping Studies on Boston Shaker and Havana Deeps. Exploration drilling is continuing at Havana Deeps and we anticipate a Pre-feasibility Study examining underground mining will commence in 2011. It is expected that Boston Shaker will add to ore reserves within the next 12 months.

We have decided to commit to contract mining and a fly-in, fly-out operation. Contract mining provided the best mine payback result due to savings in mining fleet capital and financing costs, despite adding to cash costs by approximately A\$100/oz gold. We were pleased to be able to increase ore reserves from 3.3 million ounces during the Pre-feasibility stage to 3.4 million ounces in the BFS stage despite the higher cash costs of contract mining.

The Mining Inventory is currently 59 million tonnes at 2.0 g/t containing 3.8 million ounces of gold and just over 10% of this Inventory is classified as Inferred Resources. AngloGold Ashanti is currently working on producing an updated Resource which will include Havana Deeps and Boston Shaker and we expect it to be completed early in the New Year.

companyinsight.net.au

You're very optimistic about the longer term exploration upside at Tropicana. Can you give more detail about this and the regional geology?

Chris Bonwick

The currently defined Tropicana gold system has been identified over 5 kilometres in strike length to date. The planned open pits will be up to 280 metres deep, depending on the gold price. A recent deep diamond hole drilled into Havana Deeps intersected mineralisation around one kilometre vertically below the surface, approximately 2.1 kilometres down-plunge from the base of the pit. We are waiting on the assays from that hole, but the intersected mineralisation indicates the system continues to impressive depths. I believe there is strong potential for underground mining for many years to come.

We are committed to a major exploration effort in the region. The Joint Venture has more than 30 exploration targets within trucking distance of the mine and holds approximately 16,000 square kilometres of tenements over an approximate 350 kilometre strike length. Apart from the Tropicana system, numerous other gold anomalies are present on JV ground which could also lead to new gold discoveries.

companyinsight.net.au

You have chosen a diesel-fired power option. Can you explain the possible economics for replacing that with gas ó i.e. what are the potential capital costs for a lateral pipeline and conversion to gas-fired power generation and also the associated savings in power costs?

Chris Bonwick

Based on the current BFS mine life and uncertainty about gas supply and pricing, it was decided to use diesel fuel to generate power for the project. However, the new generation dual fuel diesel-gas generators have been selected. If additional mine life is established, gas electricity generation could prove to be more economically viable than diesel if WA gas prices and domestic supply constraints improve with the new NW Shelf gas projects being developed. This could require a 350km spur line to connect to the Goldfields gas pipeline. AngloGold Ashanti estimate this pipeline would cost approximately A\$120 million (PFS estimate), but clearly this option could reduce power costs and it might be reconsidered if we continue to generate exploration success. It is estimated that cash production cost savings from the utilisation of gas fired power could be in the order of 10%.

companyinsight.net.au

IGO recently announced an equity capital raising of A\$164.3 million to be completed by way of an accelerated non-renounceable pro-rata entitlement offer and institutional share placement. Why did you choose this funding structure? How was the issue price determined (i.e. at a discount of 7.5% to the closing price on 3 November)?

Managing Director, Chris Bonwick

The Independence Board has been considering a number of alternative funding options for the Tropicana gold project including bank debt, convertible notes and other forms of equity raisings. We wanted certainty over funding prior to Project development approval and the institutional share placement and pro-rata entitlement offer provided the Board with the comfort to proceed with the development decision.

The issue price was based on the 5-day average VWAP. As the Board wanted to ensure that the vast majority of Independence shareholders could participate in the raising, a pro-rata entitlement offer was also included in the capital raising structure. A small number of shareholders from some countries were not able to participate because we thought it was too expensive to satisfy the extensive legal requirements to include them.

The institutional share placement was very heavily oversubscribed. We had very strong demand from our existing shareholders, but also have attracted new institutional shareholders to our register from Australia and overseas. I consider the capital raising was appropriately priced as the share price did not immediately trend back towards the issue price, as is often the case ó in fact our share price went up.

companyinsight.net.au

Is this capital raising and your current cash position sufficient to cover all planned company expenditure?

Chris Bonwick

Our 30% share of the cash call to develop Tropicana is expected to be around A\$200-A\$220 million. First gold production is scheduled for the December quarter 2013. Independence is raising around \$164 million and had around \$137 million in the bank at end September 2010.

We have several other projects that require investment including:

- Plans to accelerate proving up the Moran and Long ore body extensions at our Kambalda nickel operations.
- At the Karlawinda gold project, we have defined a large area containing wide, but low grade gold intercepts (up to 23m @ 2.4 g/t gold) at shallow depths and low strip ratios. The Company is continuing to infill drill and extend this gold deposit with the aim of defining resources and to provide samples for heap leach metallurgical test work.
- Investment in drilling out the Havana Deeps and Boston Shaker deposits at Tropicana and following up with scoping and pre-feasibility studies on those projects.
- Independence recently made a significant nickel discovery at the Duketon JV and if that drilling continues to be successful, a significant budget will be required to progress this project.

companyinsight.net.au

Not all institutional and retail shareholders were entitled to participate in the capital raising. What feedback have you received on that?

Chris Bonwick

Most of our institutional shareholders were able to participate in the share placement. One of our key objectives was to introduce new quality institutions to the share register. We were able to achieve this objective and the response from nearly all of our existing shareholders was very positive, as many companies do not provide existing shareholders with the opportunity to participate in capital raisings.

companyinsight.net.au

IGO recently released its quarterly report ended 30 September 2010. You have estimated NPAT for the quarter at \$10.0 million (up from \$6.9 million in the June 2010 quarter). What trend do you expect for the remainder of FY11?

Chris Bonwick

The Company does not give guidance on net profit after tax as it is too difficult to predict the nickel price or the USD/AUD exchange rate. However, the nickel price is higher than budget currently and our cash costs of production at the Long Nickel Operations remain relatively low. In the September quarter 2010, Independence produced nickel at A\$4.36/lb including royalties and we remain near the lower end of the world nickel production cash cost curve.

The Long Nickel Operations are operating very well. We have just commenced mining development ore from the Moran nickel orebody which has a higher head grade than our overall Project Ore Reserve grade. Also, mined head grades at Moran are currently above budget. If the nickel price stays at around prevailing levels, Independence should record a solid profit in the December quarter with strong cash flow generation.

companyinsight.net.au

Continuing on that theme, how would you summarise the operating performance for the quarter? Again, what trends do you expect for the remainder of FY11?

Chris Bonwick

We had a very good September quarter. Our budget was 2,368 tonnes of contained nickel at A\$4.81/lb with a head grade of 4.2% and we produced 2,702 tonnes of contained nickel at A\$4.36/lb with a head grade of 4.5%. The strong grade trend is continuing into the December quarter. We are also continuing to mine more ore than was expected from Victor South and McLeay. The Company has managed to keep cash costs of production reasonably flat over recent years, an outstanding achievement by our great mining team which has contributed to strong profitability and cash flow generation.

companyinsight.net.au

Can you give detail on the development at Moran, which you've said is on schedule and on budget?

Chris Bonwick

The first cross cut has been developed into the Moran orebody and we are continuing the footwall development and joining up of the Long South and Victor/McLeay declines. We are installing a paste plant, which we hope to have operating by April 2011. The paste (cement and tailings) is used to fill the mined areas which provides a safer working environment to allow us to extract more ore. We may even use the paste fill at Victor South, McLeay and Long.

The Company has recently concentrated on fully developing Moran, rather than fast tracking the production of large volumes of ore, but we are on track for Moran to be our largest contributor to production this financial year.

companyinsight.net.au

What about recent successes or disappointments with exploration at the Long Mine? What's the future exploration program there?

Chris Bonwick

We were very pleased to announce our new ore reserve estimate at Long last quarter of 1.3 million tonnes of ore at 4.1% nickel containing 53,400 tonnes of nickel metal. This is the largest Ore Reserve we have ever established at Long and that has extended the mine life to at least 2016, based on reserves only. We remain confident that further exploration and the conversion of other mineral resources to reserves will extend the mine life.

Both the McLeay and Moran ore bodies are open to the south and the Long orebody is open to the north. Drilling to the north of Long has recently returned results such as 9.1 metres at

3.9% nickel and 6.3 metres at 4.6% nickel. More importantly, we have been generating many electromagnetic (EM) conductors north of Long which require follow up drill testing.

We suffered a temporary setback recently when testing a very large EM conductor south of Moran from the 575 drill drive, but hit bad ground which stopped drilling activities. We are extending the drill drive by a couple of hundred metres to obtain better drilling access and will recommence drilling early next year.

We have a high calibre geophysical team and the DHTeM technology has helped us discover over \$1 billion of nickel in-situ at Long. We are continuing to apply this technology at Long and also at our other regional projects, such as the Duketon JV.

companyinsight.net.au

Of IGO's remaining regional exploration projects, where do you believe you've made most progress towards developing a possible mining operation?

Chris Bonwick

Independence has made excellent progress at a few projects and any of them could eventually become a mining operation. I believe we can add value in the shorter term by delineating additional ore reserves and mineral resources at Long and also by increasing the size of the Havana Deeps system at Tropicana.

Our Joint Venture partner, AngloGold Ashanti, recently drilled a hole at Havana Deeps that hit the mineralized system 2.1 kilometres down-plunge from the base of the pit, indicating that this is a very large gold system.

At the Karlawinda gold project, we will assess the viability of a heap leach operation while continuing to explore for a high grade, multi-million ounce deposit within the 5km x 2km gold system discovered to date. The Holleton gold project has also recently returned some encouraging intersections over a 300 metre strike length with the best result of around 10 metres at 8.3 g/t gold under sand cover.

The Duketon nickel JV has the potential to be a high grade underground operation with the best intersection so far being 9% nickel, 1% copper and 7g/t PGE's over a width of 5.2 metres.

The Company also has an interesting tin project located in the Northern Territory, which we discovered using both the Western Mining Corporation and the DeBeers diamond sampling databases. This is also under cover.

Independence also has a Joint Venture in Sweden on a nickel project where prospectors discovered boulders transported by glaciers containing nickel sulphides. We have just undertaken an airborne EM survey and discovered a 1 kilometre long EM conductor under a shallow lake close to the boulder locations.

Longer term on exploration, there have been many gold anomalies defined at the Tropicana JV, but the JV has not had the opportunity to explore these in detail as the focus has been on the delineation and development of the Tropicana and Havana ore bodies. I consider that there

is potential to continue to identify additional major discoveries on Tropicana project tenure over the years ahead.

Our geological team has a great track record of discovering new ore bodies. We own the old De Beers diamond database containing geochemical samples collected from all over Australia, which we are now systematically assaying. We are hoping to continue generating discoveries on our existing tenements and locate new mineral regions in Australia and develop them into new mining centres.

companyinsight.net.au

As the Managing Director, what company issues cause you most concern and how would you sum up the longer term Company strategy?

Chris Bonwick

The first issue of concern is the MRRT. Although it is reported that the new tax will only apply to the iron ore and coal industries in its current format, this could change at any time to include nickel, gold and other commodities. That is a serious concern and it has certainly harmed Australia's reputation as an attractive mining region. We were travelling through Canada at the time the MRRT was announced and the reaction from the Canadian mining and investment communities was one of total disbelief.

Looking at the Australian Mining Industry as a whole, the other issue of concern is the lack of suitably experienced people due to the mining boom. This is a potential risk to issues such as safety.

Our main aim at Independence is to grow a great Australian mining company that provides attractive returns to shareholders. We believe we have the team and the projects to achieve this. We are very lucky to have a high calibre experienced team of explorers and miners at Independence Group.

companyinsight.net.au

Thank you Chris.

DISCLAIMER: Gryphon Management Australia Pty Ltd trading as Company Insight has taken reasonable care in publishing the information contained in this Company Insight. It is information given in a summary form and does not purport to be complete. This is not advice. The information contained herein should not be used as the basis for making any investment decision. You are solely responsible for any use you choose to make of the information. You should seek independent professional advice before making any investment decisions. To the fullest extent permitted by applicable law, Company Insight is not responsible or liable for any consequences (including, without limitation, consequences caused by negligence) of any use whatsoever you make of the information, including without limitation any loss or damage (including any loss of profits or consequential loss) suffered by you or a third party as a result of the use.