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Mincor Resources NL
Level 1
1 Havelock Street
WEST PERTH, WA, 6005



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Shares in Mincor Resources NL (MCR) hit a high of just over A\$1 in February 2004 but have since fallen consistently to around A\$0.60 currently. Total nickel in concentrate sold was 2,309 tonnes in the December quarter 2003 and 2,122 tonnes in the March quarter 2004. As a result cash costs increased. Can you explain the issues affecting production and costs at your two operating mines, Miitel and Wannaway?

MD David Moore

Yes, but before I do I'd like to emphasise that these issues are short term. We expect a strong improvement in production and costs from July 1 when we introduce continuous rosters and a new mining contract.

We have experienced manpower shortages since about January, because our roster system is based on having a residential workforce. So all our employees live in Kambalda, but with the increased mining activity in the region the local labour market has simply dried up. In addition, our current mining contract is due to expire at the end of this month and a new contractor will start. Although the current contractor has done a good job, there's been an inevitable slippage in performance, and increased absenteeism, as we approach the end of the contract. This has had a negative impact on production and costs since January.

The slippages in the mining schedule also mean that we won't be extracting the high grade crown pillars at Miitel, which were due for extraction in this quarter, until late June or early July. This means that, for the June quarter, Miitel's grade

will average less than 3% nickel and total production from both mines probably won't exceed around 1,600 tonnes nickel in concentrate. We have also made a conscious decision to bring forward some costs – being the emplacement of three big cemented pillars, which we will complete this month – this will increase costs during June but will set us up for a very good 2004/05 at Miitel.

So production will be down this quarter, and there are a number of short term factors that have impacted production and costs since January. But I think it's important to understand that both mines are still generating good cashflows, and we would still expect an operating surplus of over \$5 million for the quarter. And with the accelerated laydown of the cement pillars, and a number of other important changes that will occur on 1 July, we're on track for a very good 12 months at Miitel.

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What are the short and long term solutions you're pursuing for the manpower shortages? What are the implications of changing your mining contractor?

MD David Moore

The crucial thing to understand is that up to now we have been running 8 hour shifts on a three panel roster, which means 3 shift change-overs per day and one day of the week during which the mines are not worked at all. This is an archaic structure that is no longer used anywhere else in WA. From 1 July we're moving to 11 hour shifts on a continuous roster. This will bring about an immediate 20% increase in productivities across the board. It will also allow us to top up our existing workforce with fly in, fly out personnel recruited from right across WA, not just Kambalda. That will completely and immediately solve our manpower problems.

Our new contractor starts at Miitel and Wannaway on 1 July. The new mining contract will bring several benefits. Unlike the old contract, the new contract doesn't have a fixed cost component. It's based on a fully variable rate structure so that the contractor's revenue is entirely dependent on performance. Our new contractor is a recognised leader in underground mining, and is large enough to have the critical mass to supply flexibility in skills and equipment that smaller players just don't have.

So again, 1 July is the key date, and we expect a very strong turnaround from then.

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Can you give a medium to longer term production and cash cost forecast?

MD David Moore

Our Nickel Expansion Strategy is firmly on track. We expect to be operating four mines within the next six months or so. This past year was always going to be slow, with Wannaway winding down and the new operations not yet in production. We should produce around 8,300 tonnes of nickel in concentrate this year (03/04), ramping up to around 11,000 tonnes next financial year, and 15,000 tonnes the following year. Cash costs, including smelter charges and royalties, will average

around A\$3.80/lb for Miitel, Redross and Mariners. Wannaway will be higher, at around A\$5.00/lb.

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Are the developments of the three new mines straight forward? What impact will these projects have on grade profile and operating margins?

MD David Moore

They're going extremely well. Redross is the most advanced and it now looks like we'll be in production in July instead of September – three months ahead of schedule. The decline is already down 1,150 metres and we've accessed the old workings, the infrastructure is in place and we're ready to begin ramping up production from July. The ore body risk associated with Redross is low, because it's an old mine that was previously mined from underground.

We're currently dewatering Mariners, which flooded about five to six years ago. It will be a pretty exciting mine because the grades are good and the ore body is quite wide. We have installed the pumps, constructed a pipeline out to Lake Lefroy, and built two new settling dams. We switched on the pumps about three weeks ago and have already dropped the water level in the mine by 100 vertical metres. This has exposed over 800 metres of the decline, which we have found to be in excellent condition. However the big test will be how quickly we can dewater the old stopes, which we're just entering. We expect that to take another four to five months, but there are a number of unknowns, including the exact volume of those stopes (ore extracted minus backfill trucked in, etc) so there is a risk of delays. The actual pumping costs are not too high but obviously any delay in the dewatering simply pushes out the start of production. So far it's looking good.

The other new project is North Miitel, which is a major extension to the current Miitel mine. North Miitel is due to come into production early next calendar year but we should get to the first small ore body, the N14, sometime in the next quarter. The beauty of the N14 is that it will pay for most of the development costs associated with the main ore body.

The average grade of our total reserves is around 2.8% nickel and the bulk of future production will vary between about 2.7% and 3%. Although that is lower than the grades in the original central Miitel ore body, most of Miitel's production was hedged at around A\$5/lb. We now have a very different price environment, so there is a high chance that margins will actually improve. What will certainly go up is total nickel production, and that is the key to the value of the Company going forward.

Cashflows will remain robust at nickel prices down to A\$4/lb.

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So what are the potential milestones or turning points for investors to watch for?

MD David Moore

In the short term, 1 July 2004 is going to be a major turning point. Costs will come down, production will go up and cash generation will strengthen.

In the medium term the value drivers will be the new projects. Things to watch for are the early start to Redross, the progress on dewatering of Mariners, accessing and mining the N14, and then reaching and opening up the main North Miitel ore body in early 2005. We've also just launched a major exploration programme and we expect some exciting results to come from that.

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Early in 2004, the nickel spot price reached around US\$8/lb and it is currently around US\$5.70/lb (A\$8.10/lb at US\$0.70). What is your earnings history under lower nickel prices and what nickel price and exchange rate do you use for modelling new projects?

MD David Moore

In many ways we have never experienced the kind of nickel prices we're now enjoying. But we have generated solid earnings despite being heavily hedged at around A\$5/lb for Miitel and A\$4.70/lb for Wannaway. Under that sort of pricing, we've reported cumulative net profits after tax of around A\$24.5 million, and EBITDA of A\$80 million in the 34 months to December 2003. All the low-priced project finance hedging has now ended.

Going forward, the strong three-year nickel price outlook gives us an opportunity to increase our margins while we lift our nickel production very strongly – that combination of strong margins and rising nickel production is the key to our future value.

We use around A\$5.50/lb nickel price in modelling new projects and we like to see an internal rate of return above 30% at those prices. We also calculate the cash break-even point and that is generally around A\$3.50-A\$4.00/lb for most of our mines.

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Miitel and Wannaway generated a total cash operating surplus of around A\$9.5 million in each of the December and March quarters. Your current market capitalisation is around A\$110 million. What's your current cash balance, to what extent are you re-investing the cash operating surplus into capex and exploration and will you be able to maintain the dividend?

MD David Moore

Our cash balance at end May 2004 was A\$11 million. We expect the operating surplus for the current quarter to be about A\$5 million. We're currently investing about A\$2 million each month in development and exploration expenditure to fund our growth. We expect to maintain our dividend despite pursuing that strong growth strategy.

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You've explained how you're dealing with the short term production and cost issues. What other challenges are on the horizon? What operating cost initiatives are you pursuing?

MD David Moore

We must work at capturing the synergies of having four mines within a 15km radius. These synergies will extend to our new mining contractor as well. We have the benefit of having operated underground mines in the area for over three years and we can transfer that knowledge to the new mines.

We have a continuous improvement process for reducing dilution, which is a key element in narrow vein mines. It's one of those things that can always be improved, and we have some ideas on how we can take it a step or two further. Another opportunity in the immediate term is the use of shotcrete for ground control. This reduces the number of rock bolts required, and frees up the jumbos for production and development drilling.

We have an innovative culture at our mines and I believe we have an absolutely outstanding team at site – it is one of our biggest strengths.

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Miitel, Wannaway, Mariners and Redross currently have combined reserves of around 55,000 tonnes of contained nickel. You recently announced a A\$7 million exploration budget. What are the broad objectives of that program?

MD David Moore

The broad objectives of the exploration program are to double the current reserves through extensional drilling of existing ore bodies and to discover a new million tonne ore body around the Widgiemooltha Dome.

Although our reserves compare favourably with nickel producers of similar market capitalisation, a key focus of ours is to extend our mine life. Mining nickel sulphides is a very profitable business but the ore bodies are typically quite small. The important thing to understand is that Kambalda-style nickel ore bodies occur in elongated channels and there's a high expectation of finding more ore if you follow the channels. When we bought Miitel it had an ore reserve of 844,000 tonnes but we've since extended that to 1.5 million tonnes. With four mines in operation we will have four major opportunities for "brownfields" type ore extensions. Hence our confidence in, and commitment to, the extensional drilling.

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Can you give more detail on the targets you're pursuing near each mine site, particularly the size, grades and accessibility of the ore bodies?

MD David Moore

The extensional targets we're drilling require deep holes from surface, which are costly and slow. But access to any ore bodies we find will be relatively quick and easy, because of the nearby underground infrastructure.

The northernmost hole drilled into North Miitel intersected a true width of 5.6 metres at 3.84% nickel. So the ore body is completely open to the north and is a prime example of a high-quality extensional target that will require deep drilling but little additional capital to mine it.

In this context I should mention one recent unexpected bonus, our ore drive at the north end of Central Miitel has gone 100 metres beyond the end of the reserve outline, in good ore. We don't know the full implications yet, but clearly this is going to add to reserves.

Last year we drilled a hole down plunge of the Redross ore body that intersected 5.2 metres at 2.5%. This demonstrated that there is still mineralisation well beyond the end of the existing reserve – all that's required is the commitment to drill those deep holes. Just north of Redross is the Jeremy Dee prospect, which may yet shape up into a decent ore body. Again, it would be easily accessible from the Redross workings.

The lowermost Mariners ore body is completely open both along strike and down plunge. We won't be doing any extensional drilling there until we have access to the underground workings.

We're also beginning to feel quite excited about Wannaway. It keeps producing nice surprises, one of which is the fact that we're still mining it more than a year after it should have closed. We have also started some drilling below the No.1 reserve, and although we have no assay results yet, I can say that it looks pretty good.

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What supports your view that Mincor has some of the best nickel exploration ground in Australia?

MD David Moore

I think the Widgiemooltha Dome was always the poor cousin to the Kambalda Dome when it came to exploration in the past. It never got quite the same level of attention. Since we have been active there I think its status has risen – we have produced over a million tonnes of high grade ore in the past three years.

When you consider that there are four million-tonne ore bodies on our tenements, and that they all lie on the Basal Contact and that we have around 60 kilometres of the strike of the contact, it is hard not to draw the conclusion that we have some of the best exploration ground in Australia.

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Can you outline your approach and prospects for greenfields exploration?

MD David Moore

Before we do any greenfields drilling we take a lot of care in compiling and modelling data. We like to make sure we have the full benefit of any previous work, otherwise we're just going to drill the same holes and make the same

mistakes. Once we've chosen targets we drill them fairly intensely so that we can prove up a discovery, or move on.

Late last year we bought some tenements north of Miitel from WMC called East Widgiemooltha. We're at the data compilation stage for that but we believe it's high quality exploration ground because these tenements host the continuation of both the Miitel and Mariners Basal Contacts.

We also have an exciting gold programme covering the Widgiemooltha Dome. We would hope to make a real dent in that programme during the coming financial year – so far we just haven't had the resources to do it justice. We simply have too many targets.

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Thank you David.

For further information on Mincor Resources please visit www.mincor.com.au or call David Moore on (08) 9321 7125.

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