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



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TITLE: OPEN BRIEFING. MINCOR. MD ON KEY PERFORMANCE DRIVERS

RECORD OF INTERVIEW:

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Mincor Resources NL (MCR) experienced production and cost issues associated with the mining contract and manpower shortages during the last six months of FY04. You said you were going to make a range of changes from July to counteract these issues and you expected a strong improvement as a result. Can you update your progress?

MD David Moore

We did have a number of issues to deal with and we went on to the front foot in tackling them – and I have to say the results look pretty impressive so far. On 1 July we changed our mining contractor, and also the structure of the mining contract. We changed our shift structure, from the archaic 8-hour shifts to extended shifts, and moved to a continuous roster. We also opened our operations to fly-in, fly-out personnel. These changes amounted to almost a complete re-engineering of the operations.

The result has been a very considerable improvement in costs and productivity, which is already clearly evident. Perhaps not surprisingly, however, we had to go through something of a ramp-up phase during July and August, and production suffered during those months. But that has also now turned around and Miitel is back up to around 800 tonnes per day out of the mine, and we look set to have a very good September. But the quarter as a whole will be fairly ordinary in terms of nickel tonnes.

The important thing though, as I said, is that we have achieved the cost and productivity benefits that we were looking for. Mining costs per tonne of ore for July and August are down about 15% compared to the previous six months – that is pretty impressive when you consider that July and August were also low production months. Even more impressive is the increase in jumbo productivities. The jumbos are our fundamental production tool underground and their productivity has an enormous influence on overall performance. The single boom jumbos averaged 6,066 drill metres per machine per month for the whole of FY04. For July and August they have averaged 7,594 drill metres per machine per month. That is a 25% improvement. Similarly, the twin boom jumbos have shown a 53% improvement in drill metres per machine per month.

All of that is pretty significant – we're looking at a greater than 25% improvement in productivities and better than 15% reduction in costs, after only two months of the ramp-up phase. So the fundamentals are now in place – the rest will follow.

There is still one more big step-wise improvement we can make, and that is to build a mine-site village for the non-residential component of our workforce. We hope to do that within the next few months

and that will greatly improve working conditions for our people and also reduce our costs quite considerably.

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For FY04, cash costs averaged A\$3.99/lb. Can you reiterate your production and cash cost forecasts for FY05 and the main risks in achieving these?

MD David Moore

We're targeting cash costs of around A\$3.80/lb for all the operations apart from Wannaway, which should be something over A\$5.00/lb. During the ramp-up phase of Redross and Mariners, cash costs will be higher. So if we average less than A\$4.00/lb for the year across all the mines excluding Wannaway, we will be reasonably happy.

Obviously grade is the single most important element that dictates cash costs. But actual mining costs per tonne of ore are what we can control most directly. Mincor has always been very competitive in that area – my back-of-the envelope survey suggests we have the lowest mining costs of any of the 'junior' Australian producers – and that is even after the recent cost problems. The changes we have made will improve the situation further.

We're aiming for production of 11,000 tonnes of nickel in concentrate for this year and then 15,000 tonnes of nickel in concentrate for FY06. Whether we achieve this year's target is really somewhat dependent on Mariners – it is the "swing producer" for us this year. If it comes on stream later than expected, then the 11,000 tonne target will start to look hard. Dewatering the mine is not a straight-line process. The rate has varied tremendously, obviously linked to the volume in the old stopes. Right now we're about half way, in terms of the vertical extent of the dewatering.

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You expect a strong increase in nickel production as Redross, Mariners and North Miitel come into production. What's the ramp up schedule for each?

MD David Moore

Redross is on schedule and budget and will be ramping up to reach a rate of around 10,000 to 12,000 tonnes of ore per month by about January. We got our first production in August – 700 tonnes at 3.1% nickel. The grade was better than expected, because the guys managed to mine it really tight, minimising dilution. That is the key to Redross – it is essentially a high grade resource turned into a moderate grade reserve because it is a narrow ore body and there is inevitable mining dilution. But that means there is real upside there – the more we can control dilution, the better the grade will be. So August's grade was a good omen.

North Miitel is scheduled to achieve first production by January 2005. Mariners is budgeted for production from January as well, and will ramp up over 6 months or so to a rate of around 15,000 to 20,000 tonnes of ore per month.

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You've previously stated that the Mariners ore body has good grades and is quite wide and that the exposed decline is in good condition. What can you say so far about the condition of the old stopes and mine infrastructure?

MD David Moore

The decline and the capital development in the footwall are in excellent condition – near perfect. We've rehabilitated down to the water line although very little has been necessary. We don't know

much about the old stopes, but we won't ever be entering them. What really interests us is the condition of the strike drives in the 07 ore body, but we're a month or two away from that yet.

There are two shafts that we were a bit concerned about. One is the vent shaft, which had been backfilled. I am happy to say that we have cleaned that out with no trouble at all – a big win, and what's more it is in good condition. The other shaft is the old escapeway. The news here is not as positive – rubble appears to have been dumped down into it without first removing the ladderways. So the rubble has not reached the bottom of the shaft and can't simply be cleared from there – it is caught somewhere in between. So we need to clear it from surface. That's a bit of a slow process but it's not on the critical path for production.

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The Wannaway mine has the shortest current mine life of all your operations. However, you recently announced some good exploration results from underground drilling, and said follow up was planned. Can you provide an update?

MD David Moore

We intersected mineralisation from underground drilling about 30 metres below the current level of mining. The widths are very good and the grades of 2.5% to 3.5% are reasonable and, very importantly, there is no sediment on the basal contact – the presence of which is generally a negative indicator. These results encouraged us to drill a deep surface hole and a follow-up wedge. Neither of these holes got an ore grade intersection, and we need to think through what that means. Exploration is an iterative process. In the meantime however we still have the original underground drilling results – there is good mineralisation down there, and we need to properly delineate it to see whether the small amount of additional capital needed to mine it is justified.

We still feel very confident about the future of Wannaway. Even once all reserves are mined, there will remain a fairly substantial remnant mining phase, which could be very profitable. So I think Wannaway still has a lot to add.

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You recently announced a net profit after tax of \$11.3 million (EPS of 6.0 cents), up 24%, for the year to 30 June 2004. What were the main drivers for the result? Did it contain any significant items?

MD David Moore

As always for nickel producers, the main driver for the profit was the nickel price. For the first seven months of the year we still had the very low-priced project finance hedging in place, and this reduced revenues quite dramatically compared with what we could have achieved if we were unhedged. In the last five months of the financial year we had full exposure to the nickel price and that made a big difference to our revenues in those months.

Production suffered in the last six months of the financial year because of the issues we discussed earlier. But we have tackled those issues and the results will flow through.

There weren't any significant items in the profit result. It was a clean result.

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At year end, you held cash of \$9.2 million and no debt. Can you explain why net cash inflow from operating activities fell from \$32.2 million to \$12.6 million?

MD David Moore

That is largely due to timing differences. If you look at cash revenue received, you'll see that in FY03 it was about \$90 million compared with about \$88 million in FY04, whereas actual revenues earned in FY03 were only about \$77 million. This is a function of the time lag in receipt of payments. There were also significant catch-up tax payments made in FY04, as well as the commencement of regular instalment tax payments. Underlying earnings remained strong.

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Mincor declared its second successive 1.5 cents per share fully franked dividend. Profits are expected to be strong over the next few years. Have you any set policy or objectives for dividend growth?

MD David Moore

We don't have a fixed policy, such as a percentage of profits. However, we do have a strong desire to keep paying dividends. We don't think companies should sit on too much cash – it belongs to shareholders and that's where most of it should go. We're spending a fair amount on developing our new mines and so we're pretty happy that we've been able to maintain our dividend.

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What do you expect will be the main positive and negative influences on profit for FY05?

MD David Moore

The most important profit driver will be the nickel price - even more so this year now that our hedging has reduced. The operational changes we have implemented will have a major positive effect.

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We have focused on production issues in this interview, but you have also brought out a detailed exploration strategy. Can you provide a brief update on progress?

MD David Moore

We have a very active exploration programme underway. We're focussed on both brownfields and greenfields exploration. The latter has had the bulk of expenditures so far, and we have great targets to follow up at Redross, Jeremy Dee, North Miitel and South Miitel. We need to mull over Wannaway for a bit, as I said earlier.

The greenfields work is only just kicking into gear. We have some tremendously exciting new targets along the basal contact – our target is another million tonne 4% nickel ore body. We're also getting very excited about the gold potential of our Licences, and will be starting a major gold exploration programme within the next few months. So there's plenty to watch for on the exploration side.

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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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