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Mincor Resources NL
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Mincor Resources NL stated that the outlook for the current half year is much stronger than the December 2008 half following implementation of the Operational Management Plan. Can you explain the success of the Plan so far, particularly in terms of protecting operating margins, reducing capital expenditure and conserving cash? What scope is there for further savings?

MD David Moore
The Management Plan has already achieved its main goal, which was fundamentally to ensure that the Company brings in more cash than it spends. We have been generating net free cash, after all capital and exploration expenditures, since November, as a result of the Plan.

So we feel we are now in a very strong position, we have good production from a robust core of three mines, generating free cash every month, and a strong financial position, with net cash and receivables at the end of February of $100 million, and what we call working capital, which is that figure minus creditors and accruals, of $79 million. And we have no debt. So the Company is exceptionally healthy, with strong sustainable production, and now we can start to look at our growth options again, of which we have many.

The key to the success of the Management Plan was our recognition that our operations are very flexible, and that that is a major strength at a time like this. The flexibility comes about because we operate numerous individual mines, and also because we do not own our own concentrator. This means that when we had to reduce costs by cutting higher cost production, we were able to suspend entire mining operations, putting them on care and maintenance and leaving them ready for a re-start in due course. If we had had to cut production from a single big mine, then that could have required “high-grading” and the risk of sterilising ore reserves. And the fact that we don’t run our own mill means that we are not hostage to the constant need to maintain volume through the mill in order to keep unit costs down.

So this flexibility has been the key to our success in managing the downturn. Of course it will also be the key to our ability to ramp up again once prices recover, because we will be able to very quickly restart idled mines, and likewise will have no milling constraint as we ramp production back up.

The previous level of exploration and capital expenditure, which was designed for an annualised production rate of around 20,000 tonnes of contained nickel, is now not necessary and we’ve reduced it to a level that is sufficient to maintain the current annualised production rate of perhaps 12-14,000 tonnes. It’s all about sustainability. We are spending enough money to maintain our current production rate for the long term, and our financial position, which is already strong, is strengthening further every month.

There is scope for further cost savings, and we are working on a number of initiatives in that regard. We also have contingency plans for any eventuality, including another drop in the nickel price. One way or another, we are very confident that we will weather this storm and come out stronger on the other side.

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For the half year, nickel-in-concentrate sold was a record 8,976 tonnes. How did you achieve this result despite closing higher cost mines? How might production schedules be affected by the Operational Plan in the future? How quickly can you adjust production to the prevailing market conditions?

MD David Moore
We achieved record production in the December 2008 half year because all our mines were fully operational. Miitel was only suspended on 24 December. In the current half year we expect to be operating at an annualised rate of around 12-14,000 tonnes, which means we’ll achieve between 16,500 and 17,500 tonnes of nickel in ore for FY09.

As we have demonstrated, we are able to adjust production very quickly to market conditions. It is one of the real strengths of our business. While we have contingency plans for a worst case scenario, we also have them for the upside scenario. It’s worth talking about Miitel in this regard. I call it the sleeping giant. It is a beautifully disposed ore body capable of very high rates of production because of its flat plunge and vertical dip. We have left it in a perfect position for a rapid and profitable re-start in due course. This is because there is around 100,000 tonnes of fully developed ore ready to be stoped. We could have kept mining that material at a profit, at almost any nickel price. But that would have cleaned out all the developed ore, meaning that a return to production would have required a slow ramp-up and significant capital development before reserves could be accessed for production. Instead, we can go right in there and start mining fully developed ore immediately, while we re-start the decline to access the rest of the ore reserve. So Miitel has a “charge” of ore in place that will allow a very rapid and low cost return to full production.

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Average cash costs were A$5.76/lb for the half. To what extent is this an opportunity to reset your cost base in the current environment? What is your assessment of the outlook for nickel prices moving forward?

MD David Moore
We think this is a great opportunity to reset the cost base – in fact average cash costs for January and February were down to A$5.19/lb, or US$3.37/lb – and we also see an opportunity to substantially lift our resource base. I can see us returning to full-scale production in due course with much lower costs, and with an expanded nickel inventory. In other words, I see this downturn as an opportunity to actually strengthen the Company.

I think it would be a very brave person who would predict the near-term nickel price. I just have no idea, but in the medium term it’s hard not to be bullish when you look at the level of production cutbacks around the world and the ongoing difficulties laterite nickel miners face. Most of the world’s known nickel resources are contained in laterite ores, and these require multi-billion dollar plants to extract. It’s hard to see where those investments are going to come from in the future, given the scale of financial destruction laterites have generated so far.

This leaves the miners of high-grade underground nickel sulphides, such as Mincor, looking pretty good, especially when, as with Mincor, we have a very big piece of one of the world’s premier nickel districts to continue to explore and exploit.

More generally, I think that as global growth picks up, supply will lag demand even more than it did in the boom that has just ended. This is because financiers of every stripe will be much more careful about the projects they support. Fundamentally, minerals are a diminishing resource and metal prices have to go up over the long term.

Nickel was the first of the base metals to rise strongly near the start of the recent mining boom and it was also the first to fall. Nickel appears to be a leading indicator and the next up-cycle might come sooner and be stronger than people expect.

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Mincor recently announced operational earnings (revenues minus cash costs and before provisional pricing adjustments) for the half year to 31 December 2008 of $28.6 million versus $91.9 million in the previous corresponding period (pcp). What were the major influences on operational earnings?

MD David Moore
The single major influence was the fall in the price of nickel, to nearly half the level we received in the previous corresponding period. That was it. Our actual production was higher than it had ever been, and our cash costs were the lowest they had been for two years. So it was all due to the nickel price.

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As at 31 December 2008, working capital (cash and receivables minus creditors and accruals) was $72 million, down from $92 million in the pcp. The interim dividend was 2 cents per share fully franked. You have an objective of covering ongoing capital, exploration and dividend expenditures from operating earnings. How close are you to achieving that? What are your capital and exploration budgets?

MD David Moore
We are achieving it now. Since November we have been generating net free cash on a monthly basis after all expenditures. We intend to keep it that way, but obviously much depends on the nickel price, and the problem of provisional pricing, which means we need to be very vigilant as to our rate of expenditure.

In the first half of the financial year, the retrospective impact of provisional pricing adjustments meant that our capital and exploration expenditures for July to October were too high, but this only became apparent when the nickel price collapsed in October. Our Management Plan was implemented in response to that collapse, but of course it was too late then to change expenditures that had already been incurred. The provisional pricing mechanism meant that the prices we actually received for production in July to September were set during October to December. So we actually received $18.5 million less revenue for those months than we had expected. So our cash balance dropped, but it is a measure of our overall financial strength that this major disruptive event, that was accompanied by a 30% move in the price of the Aussie dollar and the near collapse of the global financial system, did not fundamentally damage us. By my count it inflicted fatal or near-fatal damage on at least half a dozen Australian base metal mining companies.

Our combined capital and exploration budget for the second half of the year is $15 million.

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How does provisional pricing work and how is it accounted for in the profit and loss account and the cash flow statement?

MD David Moore
Provisional pricing is very common in the base metal industry, traditionally because of the lead time in getting one’s product to the smelter. In our case we deliver ore to the Kambalda mill and receive payment for a calendar months’ worth of metal delivered. The provisional payment we receive is based on the average nickel price during the month of delivery. However the final price is set by the average spot price during the third month after the month of delivery, and any changes are offset in the final payment. This means that, apart from any

hedging we have, we do not know the final price for a month of production and delivery until three months after that month.

For period-end accounting we manage this by estimating the final price. In line with industry practise, we estimate the price using the LME forward nickel price curve. If the final price is different, the difference comes off (or goes onto) our revenue line in subsequent months.

In our quarterly reports to the market, we report operating earnings based on this estimate, but excluding provisional pricing adjustments from the previous quarter, so shareholders can see how the Company performed for the quarter in question. However we always also disclose the provisional pricing adjustment from the previous quarter as a separate entry in the report.

In our formal accounts the provisional pricing adjustment from the previous period is in the revenue line, but again we try to clarify this by disclosing it elsewhere in the report.

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Mincor reported a net loss of $22.7 million for the half year compared with a profit of $31.3 million in the pcp. Can you explain how provisional pricing adjustments, one-off non-cash items and exploration written off impacted the headline result?

MD David Moore
Without the impairment charge, the exploration expenditures written off, and the provisional pricing adjustments from the previous year, our positive operating earnings of $28.6 million would have translated into a small net loss of just under $2 million. Much of this loss was attributable to Miitel, which generally was unable to cover its depreciation and amortisation costs.

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Are you actively assessing opportunities for asset purchases in the current market? Can you find value in the current market for a suitable asset for Mincor? What is the status of your project diversification opportunities such as the Tottenham copper project in NSW?

MD David Moore
We are looking at a number of potential opportunities. Certainly asset prices are more attractive now than they have been. Our preference is for project level acquisitions, and we are probably one of only a few companies that could finance an acquisition right now. That said, we are in no hurry, and will make sure that, if we do find something, it is the right thing for us. Its worth pointing out that Mincor has a history of making successful acquisitions.

We have stopped non-nickel exploration expenditure for the time being. Most of our tenements are 100% owned and fully expended so we are under no time pressure, and any ore bodies that may be there are not going away. So our non-nickel exploration projects remain as growth options for the future. However nickel exploration continues very vigorously.

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You've mentioned your quest for an ultra-sized nickel ore body. What specific programs to uncover an ultra-sized ore body are you currently undertaking or will you undertake when conditions improve? What are the other major areas of exploration?

MD David Moore
We have a very exciting and well-funded nickel exploration program underway right now. The discovery of an ultra-sized nickel ore body would be a company-changing event for Mincor. We've committed around $600,000 to a joint program with BHP Billiton to the north of Kambalda for a very sophisticated 3D seismic program. The actual survey was finished just before Christmas, the data is now being processed and we expect to get the results in April. The results could open up that area like a book. Let's remember that there is 450,000 tonnes of known nickel endowment on the one-third of our North Kambalda holdings that have been drilled. The other two-thirds, much of it now covered by this seismic programme, have never been drilled. So it's exciting stuff.

We recently drilled a long contact-parallel hole below the N09 ore body in our Mariners mine and we picked up a whole series of EM targets which we are now just starting to drill from underground. We're targeting an area that could yield an orebody of similar size to the N09. This is pretty interesting because grades at Mariners seem to be getting better with depth, and the NO9 ore body has been a great performer so far – a discovery of ours that we made two years ago.

We've also just started drilling down plunge at Carnilya Hill where we've uncovered very exciting indications of high grade massive sulphide zones in the keel of the syncline. We also have a lot of drilling planned in and around our Otter Juan mine, where we have high expectations of adding substantially to reserves. Depending on time constraints we also hope to be drilling again on our Bluebush Line tenements later in the financial year, and at the new Burnett discovery north of Miitel.

So there is a lot of exploration going on, ranging from the high-value near mine extensions that would need very little capital to exploit, to the potential to discover a world-class ore body at North Kambalda.

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Mincor's major corporate growth objective is targeting 20,000 tonnes per annum of contained nickel production for 20 years. Does that objective remain intact?

MD David Moore
This objective does remain intact, but as the current environment has shown, it is dependent on the nickel price. We are in business to make profits, and production is a means to that end, not an end in itself. So it makes no sense to mine 20,000 tonnes of nickel in a low price environment, when we can actually make more money by mining 14,000 tonnes. However when prices are right we have the capacity to lift production again to the 20,000 tonnes level, and when we do every single tonne will be profitable.

I think this gets to the heart of the value proposition in Mincor. We have this tremendous latent production capacity, in a Company that is financially solid, generating healthy cash flows, paying good dividends, and is clearly able to get through the down-turn, so that when conditions improve we will be able to lift production very substantially, at lower costs and from an expanded resource base, and thus generate tremendous leverage to the return to global growth.

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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) 9476 7200.

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