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Panoramic Resources Limited (ASX code – PAN) recently recorded EBITDA of \$111.8 million in FY08 compared with \$166.5 million in FY07. Can you explain the fall in underlying earnings? Were you satisfied with that result taking into account nickel prices and operational performance?

**MD Peter Harold**

There were two main reasons for the fall in our underlying earnings. The first was the sharp drop in the average A\$ nickel price in 2008 compared with 2007. Falling US\$ nickel prices and the higher Australian dollar resulted in a significantly lower average A\$ nickel price compared to 2007/08. The second major impact on our earnings was the increase in our cost base with fuel, wages, steel and consumables all up significantly. Although our production increased on an equity basis by about 8%, it wasn't enough to offset the fall in the nickel price and rising costs.

We were very satisfied with the earnings results, particularly given the operating environment. We actually hit our nickel target production at Savannah and we were only slightly under our internal budget for Lanfranchi by about 400 Ni tonnes because May and June were tough in terms of equipment availability and that did have an impact on nickel production and therefore earnings.

We declared dividends per share of 12 cents fully franked, which is a payout ratio of 43% and up from 25% in FY07. Earnings per share were 28.4 cents and that

puts us on a price earnings multiple of less than 8 times, based on FY08 earnings, and with production in the current year expected to increase by over 40%. We are well positioned for growth, with cash and receivables of \$128.6 million and debt free at the end of FY07.

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What impact did hedging have on the result? What hedging remains?

**MD Peter Harold**

The hedging loss for 2007/08 was \$36 million, however \$16 million of that related to early close-out of hedges in the previous year so the net cash effect was much lower, circa \$20 million. As at 30 June 2008, the hedge book was \$41.5 million in the money on a mark to market basis, compared with \$66.1 million out of the money as at 30 June last year. Around 25% of the next two years of production is hedged. That is probably a bit on the low side, but we're happy that it is in place now given the dramatic fall in nickel prices lately. Also a significant proportion of our currency and nickel hedging is now using put options, which gives us 100% participation in prices above our put strikes.

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The nickel price has fallen from its highs in 2007 to the current price of approximately US\$9/lb. What has driven that? What do you see as the main drivers moving into 2009? What will be your approach to taking out future hedging, particularly now that you are debt free?

**MD Peter Harold**

There has been a softening in demand for nickel due to the perceived slowdown in the world's economies and there is evidence of substitution of nickel-containing stainless steels with 200-series stainless steels, which do not contain nickel. This substitution could have occurred as a result of the high nickel prices in 2007, but persisted during the June half 2008 despite lower nickel prices during that period.

In 2007, hedge funds were instrumental in driving the nickel price up to US\$50,000 per tonne, and they are now probably actively working to push the price down by short selling. As a result, the price has been pushed below what we consider to be a fair market level based on average world nickel production costs. In addition, there's been increased supply from pig iron nickel producers with production in 2007 of over 100,000 tonnes, up from 30,000 tonnes in 2006, at a time when demand was slowing.

All of this has created a perception that there is an oversupply of nickel when the reality is the market is actually tighter than people think. As a result, we think prices will form a base at these levels and then move higher.

We're hedging opportunistically and seeking to protect ourselves from the Australian dollar moving back over US\$0.90. One way of doing this is to use put options, which would protect us from an appreciation of the Australian dollar while maintaining 100% exposure to any weakness like we have seen recently.

We are also using put options to protect us from any further short-term weakness in the nickel price. We would prefer to use options for longer term hedging however longer dated put options are more expensive because of the time value and the volatility in both nickel and the Australian dollar.

The driver for the nickel price in 2009 should be demand and further supply disruptions. We are hoping to see an improvement in demand in the near term when Europeans return from their September holidays. We also think that demand from China will continue to be strong while we are expecting further delays and a slower ramp up of new projects than some market analysts are forecasting based on first-hand experience.

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Panoramic produced 14,883 tonnes of contained nickel on an equity basis in FY08 (13,057 tonnes in FY07) at a C3 unit cost of A\$9.33/lb, a decrease of 19%. What nickel production do you expect in the future? Can you explain why C3 costs fell when costs throughout the industry have been under pressure?

**MD Peter Harold**

We have had an internal target for a number of years to produce 20,000 tonnes of nickel from our combined operations. With the forecast increased output from the Deacon orebody at Lanfranchi in the first quarter of next year, we are targeting total production somewhere between 20,500 and 21,500 tonnes on a combined project basis, which equates to between 17,000 and 18,000 tonnes of nickel on an equity basis.

C3 costs fell because smelting and royalty costs, which account for a large percentage of C3 costs fell as they are directly linked to the nickel price. Also, our unit costs reduced as production increased and we're expecting our C3 costs to be well contained this financial year with production forecast to increase by about 40%.

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Mining at the Copernicus Project (60% Panoramic) commenced in late July 2008. How well is the project performing so far?

**MD Peter Harold**

The project remains on schedule and we're forecasting the first ore into the concentrator in October.

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As at 30 June 2008, Resources at the Savannah Project (Panoramic 100%) were 70,300 tonnes (up 44% from 30 June 2007). For the first time this included mineralisation both above and below the 500 metre fault zone. Can you recap the dimensions and grades of the current Resource?

**MD Peter Harold**

That was a very significant increase in the Savannah resource. A lot of the increase is from above the 500 fault from the Northern Ore Zone and we've also intersected good mineralisation in the fault zone itself, which we previously didn't understand was mineralised. Importantly, we have defined an initial resource for the lower zone (below the 500 fault) of about 20,000 tonnes. That's only the start of the extensional drilling, which will now be the focus for resource extensions.

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You have been drilling the Depth Extension at the Savannah Project for several months. Can you summarise the potential to further extend the mineralisation? Where will you focus the exploration program going forward?

**MD Peter Harold**

The program going forward now is pretty much focused in the fault zone and the lower zone and we will be drilling there until Christmas. There are two diamond drill rigs operating from underground from diametrically opposite drill positions so we can get a good understanding of the orebody geometry. The program is designed to identify additional resources as we go deeper and convert those resources to reserves with the aim to increase our reserves by the end of the year. Obviously, that will increase the mine life and impact positively on profit via reduced depreciation and amortisation charges and the economics of the project.

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As at 30 June 2008, Resources at the Lanfranchi Project (Panoramic 75%) were 125,360 tonnes (125,659 tonnes at 30 June 2007). Does Lanfranchi have the potential for a step change in resources like you have achieved at Savannah? What is the forward program?

**MD Peter Harold**

Yes, there's no question that Lanfranchi has the potential for a step change in resources and reserves, particularly from the drilling we're doing at Deacon and there's always the potential for us to find an orebody along the Northern Dome as well.

The current program commenced at Deacon in late August. The first task is to convert the Inferred Resource of 12,000 tonnes of contained nickel into a measured/indicated category and then into reserves while we continue to test the depth extension for probably another 200 metres down plunge. That will probably take us up until Christmas. We've also done quite a bit of surface pre-collaring with an RC rig on the Northern Tramways Dome and other projects like West Edwin and we're now diamond tailing some of those holes. We will also chase extensions to the Winner orebody.

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One major corporate target is to ensure Lanfranchi and Savannah operations have at least 10 years of reserves. When do you expect to announce further Resources upgrades? What resource to reserve conversion have you achieved historically at each project?

**MD Peter Harold**

We expect to announce further upgrades to resources at both Savannah and Lanfranchi by year end. The resource to reserve conversion at Deacon (Lanfranchi) has been about 95% so far and about 80% at Savannah. The conversion rate has improved at Savannah after we commissioned the paste plant late in 2007, which has allowed us to mine more of the orebody by leaving fewer ore pillars behind.

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When do you expect to commence exploration on your newly acquired Cowan Nickel Project, south of Lanfranchi? What are the results of exploration by previous owners and what will you test? What other regional exploration programs are you planning?

**MD Peter Harold**

We've already commenced ground EM surveying. Our approach when we acquire exploration projects is for our geologists to firstly review the historic data and then we would normally do either airborne or ground EM surveying to generate as many drill targets as possible. We're still in that target evaluation stage at Cowan and we don't think we'll be drilling until calendar 2009. Cowan is a major regional program for next year and we believe it has been under-explored for nickel.

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For FY08, Panoramic generated cash flow from operating activities of \$51.9 million and dividends per share totalled 12 cents fully franked. As at 30 June 2008, Panoramic had cash and receivables of \$128.6 million. What will be your expenditure priorities for the next several months?

**MD Peter Harold**

The major expenditure priorities are finishing the vent raise for the Deacon orebody, which is on track. We're currently raise boring one of the holes and the second one is about to start and the ventilation system should be commissioned by Christmas. We will also spend capital over the next twelve months to replace major equipment such as jumbos, loaders and trucks.

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You've confirmed that you are on track to achieve 20,000 tonnes of contained nickel in 2008/09. Looking longer term, what growth can Panoramic achieve beyond that milestone?

### **MD Peter Harold**

Our major corporate objectives are to improve our safety performance and reach and maintain 20,000 tonnes of contained nickel per annum for the next ten years (100% basis). Only three years ago, we were producing at a rate of 6,000 tonnes per annum and last year we got up to 15,000 tonnes. It won't be without its challenges, but obviously there is further upside if we could discover a new orebody at the Northern Tramways Dome or if we could extract the deeper levels at Savannah at a higher rate.

We're very comfortable with our target of 20,000 tonnes per annum for ten years and we'd be very happy if we could achieve that because it would have a major impact on our earnings and operating cash flow, which are already very healthy. We would also like the opportunity to invest some of our current cash balance and strong predicted future cashflow into new projects that will help us to grow our business.

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Thank you Peter.

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For further information on Panoramic Resources Limited visit [www.panoramicresources.com](http://www.panoramicresources.com) or contact Peter Harold on 08 9225 0999.

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