

ASX Announcement : 27 May 2013

CEO on Nolans Cost Cuts



Open Briefing interview with CEO Chris Tonkin

Arafura Resources Limited
Level 5
16 St George's Terrace
Perth WA 6000

In this Open Briefing®, Chris Tonkin discusses:

- Capital cost reduction plan
 - Trade-Off Study outcomes
 - Technical optimisation study by Chinese experts
-

Record of interview:

openbriefing.com

Arafura Resources Limited (ASX: ARU) recently announced that it is targeting capital cost reductions of between A\$500 million and A\$1 billion at its proposed Nolans Rare Earths Project (ARU 100%) versus a base case capital cost estimate of A\$1.9 billion released last August. With the rare earth oxide (REO) basket price for the Nolans Project having fallen to a recent level of around US\$29/kg from a 2011 high of US\$237/kg, to what extent do you need capital savings of this order to reposition the project to attract finance?

CEO Chris Tonkin

We need to reduce overall project costs in order to better attract suitable finance. When we published the base case, we recognised that it was going to be very difficult to attract finance because of the sheer size of the capital needed. Because of that, we initiated a program aimed at reducing the required amount. Over and above that, rare earth prices have fallen while in Australia at least, costs have gone up, so we believe we need to do what we can to reduce both our capital and operating costs.

openbriefing.com

The recently completed Trade-Off Study of the Nolans Project estimates capital cost savings of A\$160 million can be realised by relocating intermediate chemical processing from Whyalla in South Australia to close to the Nolans Bore Mine site in the Northern Territory. The base case capital cost estimate for the Whyalla plant was A\$1.3 billion. Given Whyalla is close to shipping and other infrastructure, how might relocation of the intermediate plant impact other costs, including product delivery costs?

CEO Chris Tonkin

Our review of that is well underway and as soon as it's completed we'll let our shareholders know the result. However, it's worth pointing out that the A\$160 million in cost savings is a net figure which includes some other costs.

The other part of the expected capital cost savings would come from moving rare earths separation from Whyalla to a location that can offer cost-competitive reagents and electricity. The rare earths separation plant requires an associated chlor-alkali facility which of itself has a sticker price of around A\$250 million. We think we'll be able to move that plant to a chemical precinct where we can get cheaper access to hydrochloric acid and save the cost of a chlor-alkali facility.

So the capital savings realised by relocating both the intermediate and separation plants totals approximately A\$400 million. However, further work needs to be undertaken by the company to ascertain cost reductions to reach our stretch target of A\$1 billion in savings.

openbriefing.com

The Trade-Off Study also estimated a saving of A\$1.60/kg REO from plant relocation, versus base case operating costs of A\$20.55/kg. Given recent falls in REO prices, what level of operating cost reductions would be required to ensure the Nolans Project is profitable as well as competitive?

CEO Chris Tonkin

We need to find more operating cost reductions other than those from plant relocation. We expect to get some benefit from the rare earths separation plant move, but we've also instigated some work with our main shareholder and strategic partner East China Mineral Exploration and Development Bureau (ECE) and some Chinese technical experts to which we've been introduced. Their brief is to look at cost savings in intermediate processing based on their own experience and also operating cost savings in rare earths separation.

Whilst we're confident we can drive operating costs down, we're still trying to estimate to what level. We're also reassessing our projections for rare earths prices and we think we'll be looking at prices slightly higher than the current level, but that analysis is yet to be finalised. We expect to have preliminary findings within the next month or so.

openbriefing.com

What certainty do you have that REO products from Nolans will be of acceptable quality if your targeted capital and operating savings are implemented?

CEO Chris Tonkin

We don't think there will be any quality trade-off from these initiatives. In fact, we think we may be able to improve the REO product quality.

openbriefing.com

What specific processes are the Chinese rare earths experts investigating, and what are their capabilities in this area?

CEO Chris Tonkin

The experts we've employed are REO producers who have extensive industrial experience, and there will also be some input from Chinese technical institutes.

Work is focusing on three areas. The first is on beneficiation and whilst we've already achieved a lot in this area, the Chinese are investigating opportunities for further improvements on ore samples that we've supplied to them.

The second area is in intermediate chemical processing. The technical team, who have built and operate their own rare earths plant, will look at where they can improve on our hydrometallurgical processes.

The third area is in rare earths separation and, whilst we have been successful in producing separated and mixed REO products to high levels of purity, we believe a review and optimisation of this process could bring significant cost savings as well as the potential to further separate our REO products.

openbriefing.com

As most of the world's REO products are produced in China, is it likely that Nolans Project concentrates will be shipped to China for final processing to particular client specifications rather than completed at the proposed Nolans plant?

CEO Chris Tonkin

We don't intend to ship any product to China directly. It may well be that certain clients purchase product from us and then require us to ship it to China for further processing, but we expect that most, if not all, of our sales contracts will be outside China.

openbriefing.com

Given the expected cost reductions stemming from the optimisation study, Arafura has indicated that it may not need the additional A\$30 million in funding it previously said was required to complete the Nolans feasibility study. Does this mean that the scope of the feasibility study will be reduced? How will this impact financing options?

CEO Chris Tonkin

We're not reducing the scope of the feasibility study. In fact we're possibly increasing it. The reason we might not require the additional funding is that we expect most of the test work to be completed in China, rather than in Australia as previously assumed. As a result, we expect to lower our expenditure over the next six to twelve months.

I'd also like to emphasise that our arrangement with the Chinese experts is purely a commercial arrangement. This is not about handing the project over to China, or to our major shareholder ECE. We've simply engaged the Chinese team for their well-established expertise and deep experience in rare earths processing.

openbriefing.com

How supportive is ECE of the optimisation study and the other cost reduction plans? How actively engaged is ECE in the development of the Nolans Project?

CEO Chris Tonkin

ECE is very supportive and has been an instigator, with us, in engaging the Chinese technical experts. However, that's about the limit of what ECE is intending to do. ECE is not actively engaged in the work.

We continue to have a very, very good relationship with ECE.

openbriefing.com

With cash of A\$36.3 million as at 31 March, does Arafura have sufficient funds to complete its planned activities over the next 12 months?

CEO Chris Tonkin

Our available cash is sufficient to cover our activities over the next 12 months. Having said that, we'll be watching our expenditure and consider any future financing proposals carefully, and on a case-by-case basis.

openbriefing.com

Thank you Chris.

For more information about Arafura, visit www.arafuraresources.com.au or call Chris Tonkin on (+61 8) 6210 7666.

For previous Open Briefings by Arafura, or to receive future Open Briefings by email, visit openbriefing.com

DISCLAIMER: Orient Capital Pty Ltd has taken all reasonable care in publishing the information contained in this Open Briefing®; furthermore, the entirety of this Open Briefing® has been approved for release to the market by the participating company. It is information given in a summary form and does not purport to be complete. The information contained is not intended to be used as the basis for making any investment decision and you are solely responsible for any use you choose to make of the information. We strongly advise that you seek independent professional advice before making any investment decisions. Orient Capital Pty Ltd is not responsible for any consequences of the use you make of the information, including any loss or damage you or a third party might suffer as a result of that use.