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# Update on Expanded Bankable Feasibility Study

## Open Briefing with CEO & MD Dr Steve Ward

ARAFURA RESOURCES LIMITED

Arafura Resources Limited
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*Arafura Resources Limited (ARU) is an emerging rare earths company and aims to be a long-term supplier of Rare Earth Oxides (REO) through the development of its 100% owned Nolans Project which includes the Nolans Bore Mine in Australia's Northern Territory and the proposed Whyalla Rare Earths complex in South Australia.*

**Current Market Cap: $287 million**

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### In this Open Briefing®, CEO & MD Steve Ward discusses

- Expanded scope for Nolans Project Bankable Feasibility Study (BFS) and revised timetable
- Positive impact on Nolans Project NPV with reduced risk and costs
- Technical work to be completed within expanded BFS timetable

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### Open Briefing interview:

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Arafura Resources Limited (ASX: ARU) has extended the scope of the Nolans Project Bankable Feasibility Study (BFS) and as a result, the expected completion date has been extended by nine to 12 months. What is the rationale for extending the scope of the BFS?

**CEO & MD Steve Ward**
Put simply, the rationale was to focus on the high value rare earths, reduce risk and reduce operating and capital costs to deliver maximum shareholder value over the life of the project.

Since completing the A$90 million capital raising for the Nolans Project late last year, a substantial amount of the BFS work has been completed across all work streams in line with our program. This includes the hydrogen chloride (HCl) regeneration demonstration work, a resource drilling program and background environmental surveys for Environmental Impact Statement (EIS) approvals.

Since the capital raising, Arafura has also engaged expert mining and engineering companies to compliment our in-house capability and advise the Company on key aspects of the project. These consultants are both experienced and respected across the world for their expertise in their relevant fields, particularly in large chemical processing projects which is especially relevant for Arafura's Nolans Project.

Once we had this expertise on board, we undertook a detailed technical review of the project. This review identified additional work programs which have significant potential to reduce operating and capital costs and further reduce risks associated with start-up of the proposed Rare Earth Complex at Whyalla. Both these factors are very important to securing the finance required for this project which we have previously announced as being in the order of A$1 billion.

Alongside the technical planning and review for this project, there was a significant step-change in the world market for Rare Earths and the flow on effect to prices. The average value of the Nolans Rare Earths mix in June 2011 was US$208/kg which was a 1221% increase compared to the value 12 months earlier.

Arafura's view is that the existing demand/supply drivers in the Rare Earths market will continue for the foreseeable future. We firmly believe that the era of low price Rare Earth products is behind us and that higher price levels will be sustained. We do not believe that the current market shortages and resultant high prices are a short-term window.

As part of the technical review, we identified the opportunity to simplify the project's process flow sheet to focus on Rare Earths and produce different, less sophisticated, co-products using standard plant designs. For example, we are now targeting production of a simple solid phosphate co-product, rather than build a high-tech, complex Phosphoric Acid plant. This will also reduce the interdependency risks between the Rare Earth separation plant and other production plants. The decision to simplify the flow sheet significantly reduces start-up and operational risk for the project. It should also enable attainment of nameplate production capacity quicker.

If things change and we find an economic benefit to building more complex co-product plants, we have the option to do this at a later date but we believe the simplified flow sheet focusing on Rare Earth production will deliver maximum value to our shareholders at this time.

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Given your expectations for high rare earths oxide (REO) prices over the next few years, wouldn't completing the BFS sooner and optimising later create better value for shareholders over the life of the Nolans Project?

**CEO & MD Steve Ward**

We don't believe the supply/demand market fundamentals for the Nolans Project will change. Strong global demand growth with limited supply will result in tight market conditions for the foreseeable future. There is no 'bubble' and the opportunity window is not closing. Despite the later completion date for the expanded BFS, the reality is that Arafura will retain its position as one of the first major Rare Earth producers outside China capable of supplying users worldwide.

As observers and investors are coming to understand, it takes about 10 to 15 years to develop a Rare Earth Oxides project. This is because the mineralogy of each deposit is different and the technology to extract individual rare earth elements is complex.

Arafura has invested in developing proprietary technology in Australia which will allows us to independently produce Rare Earth Oxides. We are a long way down the track of completing this work and, as part of the extended BFS, we will complete further refinement, separation and quality assurance work streams, in consultation with technical experts at ANSTO, to meet our targeted customers' commercial specifications.

Arafura made the decision to optimise the opportunity to extract maximum value from the Nolans Project after careful and thorough consideration and a detailed technical review. It is our view that time to complete the expanded BFS will contribute to increased value from the project as well as reduce the risks. We are convinced that investing in front-end design and test work is the right decision and in the long-term interest of our shareholders.

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How will expanding the scope of the BFS reduce operating and capital costs? Where will these savings occur and how will the net present value (NPV) of the project be affected?

**CEO & MD Steve Ward**
We have identified a number of opportunities to significantly reduce operating and capital costs. Obviously, using standard plant design for co-products involves less capital investment than for a high-tech, complex plant.

As I stated in yesterday's announcement, producing a high grade mineral concentrate at the mine site would deliver substantial operational savings over the life of the project due to reduced reagent, transport, capital and waste management costs.

Further, the front-end technical studies on isolated interaction points in the process flow sheet is aimed at ensuring start-up at the proposed Whyalla Rare Earths Complex is achieved on time and on budget to final plan and that our ramp-up to full production is achieved as quickly as possible to deliver return on the capital invested.

In terms of impact on the project's NPV, we believe it will be substantially positive, as many of the benefits will be realised over the life of the project, otherwise we would not have made this decision. The full impact on NPV will be assessed as part of the expanded BFS.

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Given the technology Arafura will use to produce separated rare earth products is still under development by the Australian Nuclear Science and Technology Organisation (ANSTO), how confident are you that the Nolans Project will not suffer further delays?

**CEO & MD Steve Ward**
Again I think it is important to clarify that, while not completed, we are a substantial way along the path and are at the final stage of refinement, separation and quality assurance to meet the specific commercial specifications of all our target customers. In doing so, we expect to maximise the returns from sales of our products

Laboratory and pilot scale work is continuing and Arafura is confident that, with ANSTO's and Arafura's technical teams working together, the remaining work will be successful and be completed within the revised BFS timetable.

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ARU has A$79 million cash at end of May 2011. Additional funding of approximately A$50 million to A$60 million will be needed for the expanded BFS. What are your options for raising the additional funds? How much of the project costs are brought forward and can you give us an indication of your revised schedule for project financing?

**CEO & MD Steve Ward**
Firstly, in context of the additional $50 to 60 million required to complete the expanded BFS, we expect to deliver many more times that amount over the life of the project.

There are several capital raising options which we may consider including a rights issue, contributions from target customers, or financing from the wider investment community if the appetite is there.

We are currently well funded and Arafura will assess all capital raising opportunities as we move forward. About 25 percent of the additional funds relate to project costs which have been brought forward and were previously considered part of project financing.

The revised schedule for project financing and engagement of a corporate / financial advisor will be determined in due course and take into consideration the expanded BFS.

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With BFS extension, is Arafura still on track for first production by 2013? When do you now expect to sign your first off-take agreements with customers?

**CEO & MD Steve Ward**
It is too early to give a definite start up date as it will be determined by the outcomes of the BFS. Obviously construction will now start later.

We have quoted a range of nine to 12 months for the timetable to complete the expanded BFS as some of the technology program involves development work for which end dates are difficult to predict with absolute precision. Arafura will be targeting the earlier time and all efforts will be focussed on bringing the Nolans Project into production as soon as possible.

In recent months, Arafura has been very active in meeting with target customers in Europe, Japan, Korea, and the United States for potential off-take of product. These targets are customers which Arafura would prefer to develop long-term relationships with based on a number of factors we consider important for the mutual success of a commercial relationship.

Arafura's business model is to be stand alone in Australia which provides independence from the rest of the Rare Earth industry worldwide. This important differentiation is viewed positively by stakeholders and has been favourably commented on in our meetings with target customers. We have also taken target customer feedback into consideration in refining our work programs as we progress towards commercial arrangements with them.

In line with the front-end work on the operational side of our business, Arafura believe the time invested in focussed customer relations activities to secure off–take agreements is important to delivering maximum shareholder value from the Nolans Project.

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Thank you Steve.

For more information about Arafura Resources Limited, visit www.arafuraresources.com.au or call Steve Ward on +61 8 6210 7666.

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