

ASX Announcement : 18 May 2012

## Nolans Project Outlook and MOU



A R A F U R A  
RESOURCES LIMITED

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

Open Briefing interview with Interim CEO Chris Tonkin

*Arafura Resources Limited (ASX: 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.*

Market Capitalisation - \$93 million

### In this Open Briefing®, Chris discusses:

- MOU with South Korean multinational and progress with ThyssenKrupp
- Nolans Project update and outlook
- Funding options for Nolans Project feasibility study

### Record of interview:

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Arafura Resources (ASX: ARU) has signed a non-binding memorandum of understanding (MOU) with a South Korean multinational to cooperate on rare earth oxide (REO) business in Australia and Korea. What are the implications of this for your Nolans Project (ARU 100%) and what are the next steps before you complete a formal commercial agreement?

#### CEO Chris Tonkin

The fact we have a major partner willing to work with us to develop the Nolans Project, share technology and potentially develop later projects, is a big positive. The news has been welcomed by the market and has already had a positive impact on our share price. We will have a high degree of engagement post the signing of the MOU but we're unlikely to have a formal agreement until we're a little further advanced on the project. Formal off-take agreements aren't usually entered into before there's a reasonable likelihood that the project is going ahead and funding is in place. We want to make sure we do everything possible to be ready to formalise an agreement at the right time.

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One aim of the MOU is to formalise funding arrangements to bring the Nolans Project to production. To what extent might this cover your shorter-term need for approximately A\$70 million in order to complete the Nolans Project Feasibility Study (NPFS)? Are you looking at other potential sources of funding for the NPFS?

#### CEO Chris Tonkin

The MOU will help us raise short-term funding but we don't expect the Korean party to be a source of that funding. We've been approached by brokers wanting to do a capital raising and individual investors looking at putting in money, and we've also considered the

possibility of doing a placement. However, before we consider any of this, we've been concentrating on advancing the NPFS so that we can provide a decent information package to shareholders and other parties who might invest when we push the button on raising short-term funds.

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Arafura recently raised A\$8.2 million through a share purchase plan (SPP) and ended the March quarter with total cash and equivalents of A\$27.96 million. Estimated cash outflow for the June quarter is A\$9.2 million, down from A\$16.4 million in the March quarter. Will this be adequate to progress the NPFS?

**CEO Chris Tonkin**

It's adequate to progress as we've wound down a number of activities. But it isn't sufficient to progress the NPFS to conclusion, which is why we need to raise money in the short term. We've effectively wound down all but critical activities. We're optimising our existing flow sheet and undertaking related test work but, as investors are aware, we haven't yet run our sulphation demonstration plant. While this certainly contributes to a delay, if we can use this time to further develop other parts of the NPFS, we hope to be able to catch up on the lost time fairly quickly once we've procured the necessary funding.

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In March the Nolans Bore resource was upgraded by 52% to 46 million tonnes @ 2.5% REO, 11% P<sub>2</sub>O<sub>5</sub>, 0.41 lb/t U<sub>3</sub>O<sub>8</sub>. After the upgrade, how do the fundamentals of the Nolans Project compare with other competitive REO projects around the world?

**CEO Chris Tonkin**

They compare very well as it's a large resource, now containing well over a million tonnes of in-situ REO. We now have about 60% of the resource earmarked for conversion to reserves. This is sufficient to support mining and chemical processing operations for at least 20 years at annual production of 20,000 tonnes of REO. The resource is still open and could potentially be larger. As an aside, a very attractive aspect of our resource is its neodymium content. Nolans Bore has the highest proportion of neodymium of any rare earths resource currently being considered for development anywhere in the world.

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REO prices have fallen since their August 2011 peaks. How have the economics of the Nolans Project been affected by this?

**CEO Chris Tonkin**

We've been conservative with the price used in our forecasts. The current price of the Nolans REO mix is around \$67 a kilogram, after peaking at \$239. The most optimistic price we've used in our projections has been about \$54 a kilogram. The NPV based on this and other conservative assumptions is in the billions.

China appears to be acting more rationally and more commercial than in the past. There has been, and continues to be, a pattern of Chinese companies attempting to secure access to rare earth resources all over the world, so it's unlikely prices will return to the extreme highs or lows of the past even if the global economy improves.

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In the March quarter, Arafura produced three separated REO products from the Nolans Bore resource, at mini-pilot scale, in quantities sufficient for customer evaluation. How confident are you the products will be commercially acceptable and what do you hope to achieve via the customer evaluation process?

**CEO Chris Tonkin**

Those products were made to customer specification so we're confident they will be acceptable. We're still waiting for final responses, but to date feedback has been pretty

positive. We still have to test the market suitability of our REO products and test the process. Our potential customers need to know we can produce on a commercial scale and that's part of the work we we'll be doing over the next twelve months.

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During the March quarter you agreed with German company ThyssenKrupp to progress your existing letter of intent to a more formal commercial off-take agreement. What is the expected time line for formalising such an agreement? How might the scale of this agreement compare with any potential off-take arrangement under your MOU with the Korean multinational?

**CEO Chris Tonkin**

It's about the same size in terms of scale of potential off-take. We have a very good relationship with ThyssenKrupp and continue to actively work with them. The information exchange with ThyssenKrupp to date has been very positive but it will take time to get to a formal agreement as we progress through feasibility.

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You were appointed interim CEO on 22 March after Arafura restructured its board and management. What are your immediate management priorities?

**CEO Chris Tonkin**

My priority is to restore confidence in the company by being more transparent about what we're doing in relation to the Nolans Project. This includes moving as far forward as we can on the feasibility study, and being clear on the cost, what work remains and the timing to complete feasibility.

We'll focus on putting in place decent partnerships and looking at ways to fund the company on a medium- and long-term basis. In the next few months we'll be doing a major road show to update investors. We'll be putting more effort into finding strategic partners and talking to financial institutions on the debt side as well. My other priority is to retain our people and ensure we proceed on a basis where we have buy-in from staff and shareholders alike.

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Thank you Chris.

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

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