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Minara Resources Limited
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Minara Resources Limited produced 7,842 tonnes of packaged nickel and 634 tonnes of packaged cobalt for the three months to 30 June 2009 (100% basis). In terms of the factors you can directly control, how well has the Murrin Murrin plant performed this year? What improvements are still required?

MD Peter Johnston
We are pleased with the performance of the plant which has delivered a consistent production profile over the last six months.

On reviewing overall operations we are particularly pleased with the mining area and also with the performance of our front-end autoclave circuit. These areas have operated consistently for some time. In the utilities area, we are seeing a marked improvement in performance resulting from the significant capital investment we have undertaken over the last few years. The acid plant is now delivering to required capacity. The refinery also has benefited from previous capital investment with improved metal drying capacity removing a previous bottleneck. Nickel and cobalt metal reduction in the refinery is currently our key focus as there are still some production improvements to be made in this area.

We have also implemented a major change in our tailings strategy. After gaining regulatory approvals, we have moved to in-pit tailings disposal, thus increasing our tailing storage capacity and reducing ongoing capital expenditure in this area. The new strategy is delivering significant operational improvements and importantly cost savings.

In summary for the quarter, our operations have performed consistently and it is important that we continue with this trend for the remainder of the year.

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How does the recent production performance reconcile with your 2009 full year production guidance of 30,000 to 34,000 tonnes nickel (100% basis)? What operating trends do you expect in the December 2009 half year?

MD Peter Johnston
There is no change to our operating guidance of 30,000 to 34,000 tonnes of nickel for the year. In the first half of the year, Murrin Murrin produced 15,602 tonnes of nickel and as per our guidance we expect to improve on that performance in the second half of 2009. There are no major shutdowns or overhauls planned for the second half other than scheduled routine maintenance work. The aim for the second half of 2009 is to maintain our consistent profile.

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After a difficult 2008, you've adopted a short term "back to basics" approach and continue to consolidate your production profile. What are the major objectives for Minara in the short term?

MD Peter Johnston
The major focus this year has been on cash preservation, reducing costs and maintaining a consistent production profile. When we recapitalised the Company last year, we aimed to maintain cash reserves of at least A$100 million in order to ensure the Company was well placed to weather the volatility in the nickel market and the general downturn in world financial markets. To date we have successfully achieved that objective.

Throughout this year we have continued with our operating cost reduction program which we commenced in 2008. We have achieved a real culture of cost control across all levels of the Company which has contributed to achieving a C1 cash cost of US$4.99/lb nickel in the June 2009 half year.

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C1 costs were US$4.99/lb nickel for the six months ending 30 June 2009, and US$5.55/lb nickel for the six months ending 31 December 2008. Can you summarise the impact of the cost saving program on the inputs you can control? What about the recent movements in inputs you can't control such as sulphur costs?

MD Peter Johnston
We implemented the cost reduction program in the second half of 2008 in response to the rapid decline in the nickel market that occurred at the same time. While our actions took some time to show a material impact on our operating costs, the results of our hard work are now being realised. The first action was a change in our mining plan implemented in the third and fourth quarter of last calendar year. This has delivered a significant decrease in our overall mining costs.

Additionally, the focus on cash preservation has resulted in reduced discretionary expenditure in all areas. We have also been able to reduce capital expenditure given the substantial investment in the plant over the last three years.

In 2008 the spot price of sulphur rose dramatically from historic levels of below US$100/tonne to over US$800/tonne. Although we weren't impacted by the full increase in the spot price for sulphur due to the long-term supply contracts we have in place, the impact was nonetheless significant. The price increase had a major impact on our costs as sulphur is a primary source of energy for the processing plant. Towards the end of 2008, spot market prices for sulphur began to retreat and have now declined to sub US$50/tonne levels with world sulphur markets currently in surplus.

We are presently working through our sulphur stockpile, part of which was obtained last year at high prices. This high priced sulphur will largely be exhausted by the end of July, allowing us to take advantage of lower sulphur prices in the second half of 2009.

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How have recent changes in the labour market affected Minara?

MD Peter Johnston
In the boom period of 2006-2008, organisations competed to attract skilled and semi-skilled employees in an increasingly tight labour market. As a result, the WA resources sector saw a rapid rise in labour costs and a massive increase in labour turnover. In 2009, the labour market has returned to normal with increased availability across all areas. There is also a decrease in labour turnover.

During the boom years, Minara's turnover exceeded 30% annualised. We are now experiencing annualised turnover figures of 10% or lower. This lower turnover is enabling us to focus on training and up-skilling our existing workforce.

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Nickel and cobalt prices fell significantly during 2008 but have improved since then. What has driven the change? How has the supply side responded to the fall from peak prices?

MD Peter Johnston
In March last year, nickel metal was trading at approximately US$30,000/tonne on the London Metal Exchange. By the end of September it had halved to approximately US$15,000/tonne, and by the end of the year it had dropped to below US$10,000/tonne. The collapse in nickel price was a result of a sharp fall in world demand for stainless steel due to the global financial crisis. Following the collapse in demand, there were severe cutbacks in stainless steel production throughout the world which led to a reduction in world nickel production of approximately 25% to 30% during this period.

In the early part of 2009, China and some other parts of Asia re-entered the nickel market due to an increase in demand for stainless steel. This has been driven by government stimulus packages and an increase in local demand, particularly in China. However, the European and the US markets remain soft.

The challenge for all base metals industries is that China is the only growth market at the moment. This is resulting in increased price volatility. We are seeing significant fluctuations in nickel prices and we think the volatility will continue until there is a sustained increase in world stainless steel demand and hence nickel demand.

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As at 30 June 2009, cash on hand stood at $127 million, down from $143 million as at 31 December 2008. Minara has zero debt. With nickel prices improving, operating costs contained and a strong cash balance, what approach are you taking to possible growth projects for the Company?

MD Peter Johnston
Minara retains a strong cash position. We remain debt-free. On an operational basis we were cash flow positive for the six months ended 30 June 2009. We will pursue additional cost reductions and production efficiencies to improve our overall performance.

As previously stated, we continue to look at acquisition opportunities in the market. However, they must be value accretive to Minara.

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Do you expect to be able to maintain your cash balance with reference to expected cash generation and cash expenditure?

MD Peter Johnston
There has been minimal capital expenditure in 2009 as a direct result of the business plan implemented in 2008. We will continue to focus on reducing all of our fixed and variable operating costs, and this will enable us to maintain a strong cash balance for the remainder of 2009. We expect to remain cash flow positive in the second half of the year.

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Can you give an update on the heap leach operation? What conditions will be required to go ahead with an expansion of the heap leach operation?

MD Peter Johnston
The heap leach operation is performing well and we are continuing to optimise its performance. We are the first commercial scale nickel heap leach operation in the world. It is now an important production stream that will contribute to the future of Murrin Murrin.

The metal recovery and production costs of the heap leach operation are in line with our expectations. The initial heap leach operation was focussed on scats, our mill reject material. We have also proven our laterite ores leach at similar recovery rates to our scats.

There has been no decision to expand the heap leach operation beyond its current capacity. The heap leach operation is producing approximately 1,500 to 2,000 tonnes of nickel per year. The nickel market has to improve and consolidate before any decision is made to expand. I am sure that when the nickel market does return to a normal growth profile, we will again consider expansion opportunities.

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Have world economic conditions forced you to change your longer term strategy in any significant way? What is the longer term outlook for investors?

MD Peter Johnston

Commodities are a cyclical business and none more so than nickel. The deterioration of the market last year was unprecedented in its breadth and rapid onset. Eventually all markets will recover and global demand for raw materials will increase. Historically, when there is a sustained increase in global stainless steel production there is a commensurate increase in nickel demand.

In 2008, we were impacted by a significant increase in the cost of sulphur, the strong rise in the Australian dollar and the Varanus Island gas explosion which briefly curtailed production.

Minara's nickel and cobalt revenue is priced in US dollars, with the majority of input costs denominated in Australian dollars (except for sulphur and some maintenance parts). Consequently, the recent strengthening of the nickel and cobalt prices has to some extent been offset by the rise of the Australian dollar against the US dollar.

I believe all the measures we undertook to mitigate the effects of the economic downturn have established a sound platform for the Company. Once stainless steel demand improves, I think investors will look at us as an attractive investment proposition as a pure nickel play.

In summary, it has been a pleasing quarter with a sound, consistent performance from our operations. We have achieved cost reductions across the board and we are well placed to generate strong returns when the nickel market improves.

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Thank you Peter.

For more information about Minara Resources Limited, visit www.minara.com.au or call David Pile (CFO) on (08) 9212 8400 or David Griffiths on (08) 9382 8300.

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