MINARA RESOURCES

Company Insight
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Minara Resources Limited

Highlights of interview....

- Discusses June quarterly production
- 2011 production guidance
- Impact of failed acid plant heat exchanger
- Exploration, cash costs, sulphur prices
- Receipt of insurance claim

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"MD Johnston Explains June Quarterly Report"

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Minara Resources Limited has announced production of 7,157 tonnes of packaged nickel from the Murrin Murrin Operation for the quarter ended 30 June 2011. What were the major factors in this result?

Managing Director, Peter Johnston
After a planned train-swap in the mixed sulphide circuit there were a number of unrelated maintenance issues which impacted our production in April. We had strong production in May, however, gas supply issues occurred in early June arising from maintenance works on the lateral gas supply pipeline by the pipeline owner. Following that, failure of a heat exchanger took the acid plant offline in late June, requiring the remainder of the Murrin Murrin plant to operate at reduced rates through to the end of the quarter.

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The Quarterly Report and previous Company announcements have highlighted the failure of the acid plant heat exchanger and its impact on nickel production. Could you please explain the failure and the current operating position?

Peter Johnston
The acid plant at Murrin Murrin produces approximately 1,200,000 tonnes per annum of highly concentrated sulphuric acid utilised in the high pressure acid leach and heap leach circuits in the recovery of nickel and cobalt from laterite ores. Energy generated in manufacturing the acid is also captured to drive steam generation essential for the operation. The acid plant contains a number of heat exchanger units which have in the past proved to be very reliable. Storage tanks hold up to 40,000 tonnes of acid which enables nickel production to continue during limited periods of acid plant downtime.

Whilst an investigation of the root cause is incomplete, initial indications are that there was a failure of an internal tube within the heat exchanger which then caused further damage leading to the failure of the unit. Following its failure, the heat exchanger was drained and inspected and a process of testing the internal integrity of the unit commenced. Ultimately, this determined that the unit was not salvageable and a replacement unit would need to be sourced.

A replacement unit was sourced and transported to site within a few days and tie-in planning commenced. Specialised piping was sourced and tie-in works were completed. The acid plant has now recommenced operations and the rest of the plant is ramping back up to full production.

The heat exchanger failure is currently expected to result in approximately 2,000 tonnes of lost nickel production.

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You have revised Minara's production guidance for the Murrin Murrin operation to 29,000-32,000 tonnes of packaged nickel. Could you please outline the factors behind this reduction?

Peter Johnston
Guidance has been revised as a consequence of the expected production losses from the heat exchanger failure which I have previously discussed. In addition to these losses, there were smaller losses due to several unrelated maintenance issues in the second quarter and the operation suffered production losses in the first quarter as a result of extreme weather conditions and flooding.

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You have noted that the Murrin Murrin East ore-body is in production and will ramp-up to full budgeted capacity for the second half of 2011. Could you explain the impact of this ore delivery?

Peter Johnston
Murrin Murrin East is a higher-grade ore-body 52 kms from the Murrin Murrin processing plant.

Murrin Murrin East ore will be blended with other run-of-mine material and is expected to lift autoclave feed grade to over 1.3% nickel for the second half of the year. This, combined with improved plant availability, is expected to drive a stronger production performance in the second half of the year. Murrin Murrin East delivered grade has performed as expected to date and we look forward to the ore-body's positive contribution to our overall production profile for the remainder of 2011 and beyond.

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The A$5 million study of the potential beneficiation of ore from the Marshall Pool deposit for processing at the Murrin Murrin plant was kicked off during the quarter. Can you explain the basis and potential benefits of this process?

Peter Johnston
The Marshall Pool deposit is a satellite ore-body of Murrin Murrin and was previously the subject of extensive exploration and engineering work.

The Marshall Pool deposit is a large low-grade nickel laterite deposit, which is highly siliceous and, we believe, easily upgradable by simple beneficiation. Whilst the ore-body is situated some 70 km from the Murrin Murrin plant our target of beneficiating or upgrading the grade of ore mined from the deposit to over 1.4% nickel would see good financial returns from the project from the blending of higher grade ore to the overall plant feed.

The feasibility study is expected to take approximately 12 months to complete.

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Minara has continued with its near mine exploration program. What results have you seen from this drilling?

Peter Johnston
The near mine exploration program commenced in the second half of 2010 and continued during 2011. It represents the first exploration drilling in over ten years of Murrin Murrin operation. The objective is to delineate higher grade zones of ore to be blended with other run-of-mine material to lift our overall production profile. This exploration project is relatively efficient in terms of the costs expended to test individual targets. Murrin Murrin ore-bodies are typically shallow and ore zones are easily identified by sight. If the drilling teams hit bedrock they stop the hole and move on.

Results have been encouraging. We will continue this exploration effort with the objective of adding value to the capital previously invested within the Murrin Murrin plant over the next few quarters.

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Cash costs for the quarter came in at US$9.06 per pound of nickel packaged. What contributed to this result and what is your expectation for cash costs over the balance of the year?

Peter Johnston
Reported C1 costs of US$9.06 per pound of nickel packaged were influenced by the historically high Australian dollar exchange rate, above-budget maintenance costs and production losses.

The Australian dollar exchange rate averaged just over US$1.06 for the quarter. We have calculated that this increased the reported value of US$ denominated C1 costs by US$1.12 per pound for the quarter, compared to the costs that would have been reported if the average exchange rate experienced in 2010 of US$0.92 applied. Each one cent increase in the A$:US$ exchange rate is estimated to contribute an additional US$0.08 per pound to overall reported C1 costs.

Maintenance costs also pushed the reported C1 costs higher during the quarter with a planned train-swap conducted in the mixed sulphide area of the plant in April and costs incurred for other unrelated maintenance issues encountered in April. Increased maintenance costs were also incurred as a result of gas supply issues in early June, as well as the acid plant heat exchanger failure in late June.

Overall, resumption of full production, including the benefit of Murrin Murrin East ore, should see C1 costs revert to historically lower levels in the second half. This is of course subject to the prevailing A$:US$ exchange rate, which at historically high levels materially impacted reported cash costs in the first half of the year.

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You have advised that Minara continues to benefit from sulphur price protection measures. Could you comment on those and their impact in 2011?

Peter Johnston
Yes, in 2010 we negotiated sulphur price protection agreements with our long-term sulphur suppliers to insulate Murrin Murrin from sulphur price spikes, such as were seen during 2008. We were pleased to be able to de-risk our business in this way.

In 2011, over 80% of our expected sulphur consumption is price protected in this way. With market prices of sulphur FOB ex-Vancouver currently at around US$210 per tonne, these measures are currently delivering savings to our business.

A portion of these price protection arrangements extend to cover 2012 and 2013. Negotiations have commenced to seek similar extension of the remainder.

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You note in the Quarterly Report that the Murrin Murrin Joint Venture has received an interim payment of an insurance claim relating to the Train One HPAL autoclave pipeline failure at Murrin Murrin in May 2010. Could you advise of the status of this claim and follow-up actions?

Peter Johnston
The Murrin Murrin Joint Venture maintains comprehensive insurances, including for property damage and business interruption at its Murrin Murrin operations. The 2010 Train One autoclave pipeline failure within the high pressure acid leach circuit of the operation resulted in over 2,000 tonnes of lost production and was therefore the subject of an insurance claim of over $30 million.

The process to document and prove such claims is seldom straightforward. However, in June the joint venture's insurance underwriters confirmed agreement to make a 60% interim payment of the insurance claim totaling A$19 million. These funds were paid progressively by the underwriting syndicate over the course of June with the final A$1.2 million instalment received in early July.

Whilst we have received this interim cash payment, the total amount of the insurance claim has not yet been finalised and is subject to final agreement by the insurance underwriters. Consequently there is no certainty that all of the payments received to date may be retained by the Company when the claim is finalised. However, the fact that the A$19 million payment has been received in full is seen by Minara as a positive indication that the insurance claim will have a favourable outcome. It is hoped that the claim can be finalised within the next quarter.

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Do you envisage an insurance claim for the acid plant heat exchanger failure?

Peter Johnston
It is too early to say whether a claim might be made or receivable in relation to the heat exchanger failure. However, I can confirm that the relevant insurances remain in place in 2011 and our insurance underwriters have been notified of the potential for a claim. Following this, insurance loss adjustors attended Murrin Murrin last week.

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The Australian Government has proposed introducing a carbon tax. Can you tell us the impact this will have on Minara?

Peter Johnston
Minara is closely monitoring the proposed carbon tax and its potential effects on the Company. As almost all of the Murrin Murrin Joint Venture's production is exported to international markets, Minara is a trade-exposed business and seeks protection from the impact of the carbon tax. We have made several detailed submissions to the Federal Government to this effect, however, we have yet to receive any formal response. Any carbon tax without the benefit of industry protection will increase Minara's cost base and reduce our international competitiveness.

Murrin Murrin reports to the Federal Government under the National Greenhouse and Energy Reporting Act and in the 2009-2010 reporting year, Murrin Murrin's reported emissions were 568,620 tonnes CO_2-e. Minara's share of this is 60%.

If the publicly-discussed rate of A$23 per tonne were to apply and concessions were not available to protect Murrin Murrin's trade exposed position relative to international nickel producers, the overall impact of the tax on Murrin Murrin would be just over A$13 million in the first year. This equates to an impact of approximately A$7.8 million for Minara in the first year.

In addition to the proposed carbon tax, we have calculated that the associated $0.06 per litre reduction in the diesel fuel rebate would cost Murrin Murrin a further $1.2 million per annum.

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Thank you Peter.

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