

ASX Announcement : 12 November 2012

CEO on Nolans Project Update and Outlook

A R A F U R A
R E S O U R C E S L I M I T E DArafura Resources Limited
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Open Briefing interview with 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 the Northern Territory and the Whyalla Rare Earths Complex in South Australia

Market Capitalisation - \$71 million

In this Open Briefing[®], Chris discusses:

- A\$9.9 million raised from ECE to progress Nolans Project feasibility study
- Update on Nolans Project valuation
- Outlook and funding strategy for Nolans Project

Record of interview:

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Arafura Resources Limited (ASX: ARU) recently received both shareholder and Foreign Investment Review Board approval for the issue of 45.3 million ARU shares at A\$0.22 per share to existing shareholder East China Mineral Exploration and Development Bureau (ECE), raising A\$9.9 million. The funds are to be used to progress the Nolans Rare Earths Project feasibility study and for working capital. What progress has been made on the study and do you now have adequate funding to complete it?

CEO Chris Tonkin

We've made progress on the feasibility study and are working towards completion of the Nolans Project Base Case. There's still a lot of work to do and we are ramping up our activity. We haven't yet built our integrated pilot plant and we're sending some of our technical team to China before the end of the year to look at options to improve its design.

As we've earlier stated, we need about A\$70 million to finish the feasibility study. Adding the A\$9.9 million from ECE to the A\$22.5 million R&D tax refund we recently received, plus our existing cash, we have about A\$40 million cash on hand. This places us in a strong position to continue with feasibility and we are considering other options for the remaining funds.

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The Independent Expert's report on the ECE transaction, conducted by BDO Corporate Finance, estimated the fair value for the Nolans Project, using a discounted cash flow method, in the range of A\$2.4 billion to A\$4.0 billion, with a preferred value of A\$3.2 billion. This differs from Arafura's projected Base Case net present value of A\$4.3 billion, partially due to different operating cost and input assumptions. Can you comment on the Independent Expert's valuation of the Project?

CEO Chris Tonkin

The Independent Expert's valuation methodology was very similar to ours except that BDO used a discount rate of 12%, while we used 10%. In any event, BDO's valuation of A\$3.2 billion is still a large number.

The Independent Expert also went on to impute value per share – of A\$0.323 – in order to compare with the ECE placement price. While we don't have any issue with the valuation, we note that BDO has assumed the Project is wholly funded by the issue of shares. The per-share valuation would be substantially higher if debt funding, rather than equity funding, is assumed. This is a more likely scenario and a recent report by Resource Capital Research considers other project financing options. Their report is available on our website.

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Arafura recently received an A\$22.5 million tax rebate from the Australian Government for eligible R&D spending. What specific R&D spending did the refund relate to and are similar refunds expected in the future?

CEO Chris Tonkin

This is the first year the Government has provided a cash rebate as opposed to a future tax deduction. The Government's guidelines indicated that most of our test work was eligible, as was the work on the demonstration plant.

We will continue to have our feasibility work programs assessed for eligibility under the Government's scheme.

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With approximately 90 km of drilling completed, the Nolans Bore JORC resource is 47 million tonnes at 2.6% rare earth oxide (REO). Is further drilling required for the feasibility study or to declare an ore reserve for the Nolans Project? Is there further potential resource upside ahead of the completion of the feasibility study?

CEO Chris Tonkin

The Base Case is based on Measured and Indicated Resources at Nolans Bore, which provides a mine life of 20 years. Our Inferred Resources could add another 10 years to the operational life of the Project, and the resource is open at depth. We're currently getting the resource independently assessed for conversion to an Ore Reserve. We're confident we have an Ore Reserve, but we won't know the outcome for a month or so. Confirming an Ore Reserve won't involve more drilling, but will involve the completion of a mine plan which necessitates the involvement of other parties like AMC Consultants, the technical expert that was engaged on the Independent Expert's report.

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You've now produced four separated REO products to 99% purity, with the fifth and final product to come. What is the significance of this for the Nolans Project's commercial opportunities?

CEO Chris Tonkin

Firstly, this shows that Arafura has developed a process that can deliver final REO products from the Nolans Bore resource, and at various levels of scale testing. Some of the funds we've raised will be spent on scaling up and final proving of the process. Secondly, samples are being provided to customers as examples of finished products produced to a high level of purity. We're continuing to build our product marketing campaign by emphasising this key point of difference.

At the same time, we've detected some resistance to Arafura because of the mistaken perception that our resource only has "light" rare earths. Interestingly, our projected annual heavy rare earths production is not materially less than many companies that market themselves as "heavy" rare earth producers. We'll focus on modifying Arafura's branding to

account for our heavy rare earths component, but at the same time reinforce our superior endowment in Neodymium-Praseodymium, and the “SEG” rare earths (Samarium-Europium-Gadolinium). These have very good growth prospects given where global demand is moving and we’re looking for partnerships with organisations interested in working with our rare earths mix.

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What is your strategy in relation to securing funding for the estimated A\$1.9 billion capital cost of the Nolans Project? How is the recent placement to ECE likely to impact your funding options?

CEO Chris Tonkin

The placement to ECE is welcome but it won’t have a large effect on the market’s perception of Arafura. The declaration of an Ore Reserve should have a major impact on the Company’s underlying value. This may provide access to different funding options than perhaps have been previously available to us. Our overall strategy is to continue to build value in the Nolans Project as we advance towards project finance.

We haven’t talked to many equity parties about long-term funding to date because we’ve been focused on short-term funding. On the debt side, we’ve held high-level discussions with a number of parties. We’re also being assisted by parties with which we already have an established relationship, like ThyssenKrupp. ThyssenKrupp is very positive about the Nolans Project, and we’re now looking to escalate our letter of intent with them into a more formal off-take arrangement. In addition, ThyssenKrupp has introduced us to some of its banks and other potential European funding partners.

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You also recently signed a farm-in agreement with Rox Resources in relation to your Jervois Project (or the Bonya Copper Project), under which Rox is required to spend \$500,000 within the first two years to earn a 51% interest in the project’s base and precious metal mineral rights. What was the rationale for this and are you considering similar arrangements for any of your other non-rare earth exploration projects?

CEO Chris Tonkin

Arafura has a number of other “non-core” tenements in the Northern Territory and the agreement with Rox at Jervois offers good potential for the discovery of base metals, particularly copper. The deal is structured so that we retain a 30% interest. If we want to contribute at some earlier stage in the JV then we could potentially retain a greater interest. We want to keep the rare earths and related mineral rights in this and other deals we do, and farm out other mineral rights.

Importantly, we aren’t diverting resources from our core rare earths business in executing our strategy to derive value from our second-tier projects.

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Thank you Chris.

Interview

To listen to an interview with Chris Tonkin, CEO of Arafura Resources, please click on <http://www.openbriefing.com/OB/822.aspx>

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

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COMPETENT PERSONS STATEMENT

The information in this report relating to Exploration Results and geological interpretation was compiled by Mr Kelvin Hussey who is a Member of the Australian Institute of Geoscientists. Mr Hussey is a full time employee of Arafura Resources Limited and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code). Mr Hussey consents to the inclusion of this information in the form and context in which it appears.

The information in this report relating to Mineral Resources was compiled by Mr John Tyrrell who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Tyrrell is a full time employee of AMC Consultants Pty Ltd and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code). Mr Tyrrell consents to the inclusion of this information in the form and context in which it appears.