

ASX Announcement : 11 December 2013

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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MD on Company Update and Outlook

Open Briefing interview with MD Gavin Lockyer

Arafura Resources Limited (ASX: ARU) is an emerging rare earths producer focusing on its flagship Nolans Project, located 135km northwest of Alice Springs in the Northern Territory. The Nolans Project contains 1.22Mt of rare earths in JORC-compliant Mineral Resources (at 2.6% REO) and 0.67Mt in JORC-compliant Ore Reserves (at 2.8% REO).

In this Open Briefing[®], Gavin discusses:

- **Optimisation Study progress**
- **Nolans Project Capex and Opex reductions**
- **Rare earths market projections**

Record of interview:

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Arafura Resources Limited (ASX: ARU) recently announced (10 September) a Memorandum of Understanding with US\$1.4 billion market cap, Shanghai stock market listed rare earths producer, Shenghe Resources Holding CO.LTD (SSE: 600392.SS) to assist in the development of Arafura's Nolans Project, under which the two companies will work together on a range of inter-project areas. What role is Shenghe playing in the Chinese Optimisation Program and what progress has been made to date?

MD Gavin Lockyer

Shenghe has introduced us to a number of rare earths process experts in China, particularly in beneficiation and rare earths extraction, and recently we initiated two individual contracts of work, the costs of which are materially less than equivalent work programs in Australia. Shenghe is also providing introductions to their existing customer base, which is extremely useful as we progress towards project financing, when off-take arrangements will be increasingly important in terms of raising debt finance.

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Lycopodium Limited (ASX: LYL) has been contracted to provide an engineering cost estimate for a rare earths separation plant that is planned to be sited in an international location. Why is an international location the preferred option for the plant rather than the Nolans Bore mine site in the Northern Territory?

MD Gavin Lockyer

We'd obviously like to do everything in Australia if we possibly could. However, locating our rare earths separation plant within a mature offshore chemical precinct allows us access to cost-competitive raw materials, reagents and power, and that will go some way to further driving down project capital and operating costs. In addition, offshore placement of rare earths separation has the potential to facilitate cooperation between Arafura and organisations that are interested in supply arrangements, or product off-take, or like us in minimising downstream capital spend.

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In your AGM presentation you outlined preliminary reductions in capital and operating costs for Nolans resulting from optimisation work and a reconfiguration of the Project. Can you walk us through these improvements, and your expectations in this regard over the next six months?

MD Gavin Lockyer

Over the past few months our engineering team has achieved very material reductions in both capital (down by 21% to A\$1.5 billion) and operating costs (down by 17% to A\$17.10/kg of REO), and I'm confident there are more savings to come. Starting with beneficiation, improvements to that circuit have resulted in a 39% reduction in mineral concentrate feed into pre-leach. Next, a very significant change has been the replacement of hydrochloric acid in pre-leach with sulphuric acid. This not only reduces the complexity of intermediate processing and the size of the plant, but also cuts our reagent costs. Furthermore, we have improved our beneficiation and rare earth extraction processes resulting in higher recoveries for the magnet-feed rare earths neodymium and praseodymium, as well as for lanthanum and cerium which we see as having a strengthening presence going forward due to growth in the fluid cracking and auto catalyst markets. And finally, undertaking more of our processing close to the Nolans Bore mine site provides us with further opportunities to reduce our capital spend, our transport and logistics operating costs, and simplifies our residue management program by eliminating the need to transport this material over long distances and across State/Territory borders.

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Can you provide some commentary on the global rare earths market and Arafura's marketing activities, with particular emphasis on the five separated rare earths products that Arafura intends to commercialise?

MD Gavin Lockyer

Our commercial and sales and marketing team has been busy recently meeting with potential customers and end users. The best performing market segment is expected to be magnets (10% CAGR), and that plays to our natural advantage with our Nolans Bore resource highly enriched in the magnet-feed rare earths neodymium and praseodymium. What we are also finding is that demand for cerium and lanthanum is strengthening, predominantly driven by the automotive and refining catalysts market segments with potential growth of 4-6% from today's level for both cerium and lanthanum. Consequently, we are confident in our ability to commercialise the Project around products that comprise over 90% of our rare earths mix by volume.

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At the end of the September quarter Arafura had approximately A\$29 million in cash. What is your current quarterly funding requirement and do you have sufficient funds to meet your current planned activities?

MD Gavin Lockyer

The short answer is yes. We have significantly reduced our cash spend by moving a lot of our work to China, and the current burn rate is in the order of A\$3.5 million per quarter. So we have sufficient cash to continue our planned activities leading into an updated feasibility document/information memorandum, which we plan to make available in the first part of next year. Having said that, cash is king in the current environment for junior development companies, so we will continue to build on our existing strategic relationships both in China and in other parts of the world to ensure that the Company remains adequately funded going forward.

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Thank you Gavin.

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

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