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ARAFURA TARGETS CUTS OF UP TO \$1 BILLION IN NOLANS PROJECT CAPITAL COSTS

- **Arafura responds to challenging business environment with new Project enhancement initiatives underway;**
- **Significant savings expected from relocating intermediate chemical processing close to the Nolans Bore Mine site;**
- **Other initiatives from Trade-Off Study, including process improvements and further relocation of plant, under active consideration;**
- **Total capital cost reductions of up to A\$1,000 million and significant savings in operating costs being targeted;**
- **Additional material efficiencies and savings expected through a Project Review and Optimisation Program being undertaken with Chinese rare earth experts;**
- **Likely reduction in short-term funding requirements and long-term funding risk.**

Australian rare earths company **Arafura Resources Limited (ASX: ARU)** (“Arafura” or the “Company”) is pleased to provide an update on the Nolans Project (the “Project”) to coincide with a presentation delivered by Arafura’s Chief Executive Officer, Chris Tonkin, at the 2nd Annual Technology Metals Summit in Toronto earlier today.

New initiatives to boost Project economics

The Base Case contained in the *Nolans Project Update (ASX: ARU 07/08/12)* confirmed the viability of the Project at that time and facilitated the conversion of the Project’s Measured and Indicated Resources to Probable Reserves (ASX: ARU 11/12/12). However, the ensuing environment has been one of lower rare earths prices, increasing business costs and continuing depressed capital markets.

Arafura is cognisant of the industry and financial environment in which it now operates and is prepared to take appropriate and necessary steps to ensure that it delivers a successful Project. To this end, the Company is very focussed on initiatives designed to

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achieve an outcome that is more compelling to shareholders, investors and capital markets. These include measures to:

- Improve and optimise the Project's configuration and logistics;
- Identify and apply process flow sheet improvements and design efficiencies; and
- Substantially reduce the Project's capital and operating costs.

Trade-Off Study highlights significant efficiencies and savings

Arafura has completed the Trade-Off Study foreshadowed in the *Nolans Project Update*. This study evaluates various process options and plant configurations aimed at improving the economics of the Nolans Project and its ability to be financed. Results from the study are currently being evaluated, but preliminary findings indicate that significant savings in Project costs can be achieved by simplifying the Project's transport and logistics component.

The Company can realise indicative savings of approximately A\$160 million in capital costs and A\$1.60/kg REO in operating costs by relocating intermediate chemical processing from Whyalla in South Australia close to the Nolans Bore Mine site in the Northern Territory.

In support of this initiative, exploratory drilling completed by Arafura south of the Nolans Bore Mine site in recent months has identified an extensive aquifer system that the Company believes could supply the Nolans Bore Mine and Concentrator, and the Intermediate Plant, with process and potable water for the life of operation. This is expected to limit, and possibly eliminate, any need by Arafura to draw on water resources from the Ti Tree Basin, currently used for horticultural and pastoral development in the district.

Arafura has held recent discussions with both the South Australian and Northern Territory Governments regarding this proposal and is confident that the Company's proposed plant relocation and resultant cost savings is achievable.

In addition to prospective savings from relocating intermediate chemical processing close to the mine site, the Trade-Off Study has highlighted various process initiatives, and potentially further plant relocation benefits which the Company is actively assessing.

The Company is retaining its interest in the Project's Whyalla site pending its final decision on the extent of plant relocation.

Targeted cuts in capital costs of up to A\$1 billion and reductions in operating costs

From these initiatives, Arafura is targeting total Project capital cost reductions of between A\$500 million and A\$1,000 million over the entire Project, as well as significant reductions in operating costs.



Material savings in capital and operating costs anticipated through Chinese engagement

As foreshadowed in the December Quarterly report (ASX: ARU 31/01/13), Arafura has embarked on a Project Review and Optimisation Program for the Nolans Project with Chinese rare earth experts through introductions provided by its major shareholder and strategic partner East China Mineral Exploration and Development Bureau (“ECE”). The objective of this engagement is to review the work undertaken by Arafura to date and to identify where synergies and further optimisation of the Project can be achieved through access to Chinese rare earth expertise, technology, procurement, construction and potentially funding for the Project.

The program underway in China complements the Company’s Trade-Off Study. Arafura’s technical and commercial teams have in recent weeks visited Sichuan province to initiate a detailed exchange of data and information relating to the Nolans Project. Representative samples of relevant material are currently in China awaiting confirmatory test work. Progress on, and substantive outcomes from, the Optimisation Program will be reported over the coming months.

Arafura anticipates further material reductions in capital and operating costs as key unit processes and circuits in the Base Case flow sheet are optimised, and synergies with established Chinese rare earth beneficiation, hydrometallurgical and separation technologies are identified and adopted.

Likely reduction in short-term funding requirements and long-term funding risk

The Company has previously announced that it requires additional funding in the order of A\$30 million to complete its feasibility study on the Nolans Project. Following recent discussions with ECE and with an expected reduction in the Company’s costs stemming from the Optimisation Program being undertaken in China, Arafura believes that it can significantly reduce and potentially eliminate the necessity for this funding requirement.

Arafura has existing cash reserves of approximately A\$36 million. With these funds in hand, with a much lower cost project and with continued support from ECE, Arafura is confident that it can advance the development of the Nolans Project towards financing and commercialisation amidst these challenging financial markets.

Arafura Chairman, Ian Kowalick, commented, “Industry and financial pressures are impacting businesses across Australia. The upward pressure on costs and the recent softening in rare earth prices has created an environment which, at present, compromises the viability of the Nolans Project in its current configuration.

“The Company is actively pursuing initiatives which aim to enhance the economic validity of the Project. For example, relocating the intermediate chemical processing



element of the Project close to the mine site will create substantial and materially significant savings for the Project and mitigate risks related to transport and logistics.

“In addition, we are continuing to focus on keeping Project costs to a minimum and have set an aggressive yet achievable target to reduce capital costs by up to A\$1 billion. Our aim is to develop and deliver a successful and profitable Project within an acceptable timeframe.

“With the help and support of the Northern Territory Government and our major shareholder ECE, we are confident that we can advance the Nolans Project towards sustainable financing and commercialisation.”

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