

Arafura launches plan to address rising costs and falling rare earth prices



Arafura Resources ('Arafura', ASX: ARU), one of Australia's fastest-growing rare earths developers, has announced that it has formally terminated – effective June 24, 2013 – the 'Contract for Sale and Purchase

of Land in Whyalla', signaling the formal implementation of an ambitious cost saving strategy to improve the economics of the Nolans Rare Earths Project. This is a very important development that will enable Arafura to realize material capital (and operating) cost savings to the tune of AUD\$ 400 million by re-locating the intermediate chemical (hydrometallurgical) processing plant from Whyalla to the Northern Territory, closer to Nolans Bore. Arafura is also evaluating prospects to locate its separation plant to an established chemical precinct outside Australia, within well established supporting infrastructure. The cost savings will allow Arafura to continue on its course to production of REE's featuring significant quantities of heavy rare earths.

The move from Whyalla is the first step toward reaching the ultimate goal of cutting up to a billion dollars off the cost of the Project. The second major step will be determined by the location of the separation plant, which will be moved to a location where there is easy access to hydrochloric acid, which means that Arafura will not have to build a chlor-alkali plant, which will by itself take away a further AUD\$ 300 million or so off the project's cost. Arafura, meanwhile, is continuing to work closely with its Chinese partner East China Mineral Exploration and Development Bureau (ECE) toward

achieving project optimization thanks to a careful review of capital and operating costs in addition to the billion dollars savings plan described above. ECE has a strategic equity holding of 24.86% in Arafura, enabling Arafura to avoid having to dilute the share price while continuing to work on its own innovative rare earth extraction process.

Arafura has identified three main factors as responsible for the cost cutting measures. The overall motivation has resulted from an industry-wide pressure on costs, which in Arafura's and others' case, has unmasked investment budgets as being overly ambitious. Falling commodity prices have burdened Arafura prompting the Company to capture losses by moving the processing plant closer to the mine. Finally, Australian infrastructure costs have increased substantially in the past few years – especially energy and construction – making the Whyalla plant prohibitively expensive. Arafura had chosen Whyalla, originally, because of the jurisdiction's welcoming attitude and recognition from the state government of South Australia. Nevertheless, the combination of rising costs and lower rare earth prices prompted Arafura to take action to ensure long term success, revising the Nolans project's configuration; namely, addressing the rapidly growing risks owing to rising transportation and logistics costs.

Chris Tonkin, Arafura Resources's CEO, first announced the cost cutting plan at the Technology Metals Summit ([#TMS2013](#)) in Toronto last April 21. Arafura said that the cost pressure had actually threatened the viability of the Nolans mine while the savings would allow it to avoid having to raise or borrow funds to continue expanding the Nolans project. This is a significant achievement particularly in view of the fact that. Arafura has taken on the rising costs by focusing on becoming more efficient.

The Nolans Bore probable ore reserves total 24 million tons grading 2.8% REO (672,000 tons of contained REO), along with 2.97 million tons of phosphorus oxide and 4,900 tons of

uranium oxide. According to Arafura, these reserves can be mined using open-pit methods that help improve on overall costs and have an estimated lifespan of 22 years, using a maximum beneficiation turnout of 1.1 million tons per annum. Additional positives can be found in the fact that 21 million tons of the Nolans Bore inferred resources can be converted to ore reserves. Further drilling will be required for confirmation but Arafura's 95% resource-to-reserve conversion rate marks a significant achievement, with Nolans Bore as one of the world's only rare earths projects that has established an ore reserve.