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Minara Resources Limited  
Level 4  
30 The Esplanade  
Perth, Western Australia 6000



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Minara Resources Limited's share price has fallen dramatically over recent months. What's your view on that?

**MD Peter Johnston**

Since May 2008, the nickel price has decreased from around US\$28,400 per tonne to levels around US\$15,800 per tonne at the end of September 2008. Since the beginning of October there have been further substantial falls in the price of nickel. Given that nickel accounts for the majority of Minara's revenue, it is unsurprising, albeit disappointing, that our share price has fallen along with the nickel price. Cobalt, our significant by-product, has also experienced significant volatility with the price ranging from US\$46.50 per pound in May 2008 to US\$33.50 per pound at the end of September 2008.

Additionally, like most companies in the resource sector Minara has experienced sustained cost pressures across all major inputs. Like most resources stocks, Minara has suffered from negative investor sentiment simply as a result of increased stock market volatility due to the credit crisis.

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Can you outline the financial state of the Company with reference to cash flow generation, current cash and debt levels and un-drawn debt facilities?

**MD Peter Johnston**

As I've mentioned, Minara is currently experiencing a tough operating environment. Since our last discussion in early August, our balance sheet has been impacted by the declining nickel price, increasing working capital requirements due to the higher sulphur price and the funding of our remaining active capital projects. We have put in place short term funding arrangements to alleviate these pressures and we're currently investigating putting in place longer term funding arrangements utilising either debt and or equity.

At this stage, we expect profit after tax to be in a range of approximately \$20 million to \$40 million for the full year to 31 December 2008. However, I must stress that the full year result is sensitive to production output, the Australian dollar and nickel, cobalt and sulphur prices. Movements in any of these can have a material impact on the actual full year profit result.

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You recently deferred the heap leach expansion project, primarily because of the significant increase in sulphur prices and the fall in the nickel price. What are your major stay-in-business capital and growth capital expenditure commitments? How will you fund these?

**MD Peter Johnston**

Since the middle of the year, all new capital projects have been suspended including the planned expansion of our heap leach facilities. We are concentrating on completing only a few key capital projects which will contribute to our overall business plan and improve production stability.

Up to 30 June 2008, the Company had spent \$53 million in capital with a further \$60 million to \$80 million forecast to 31 December 2008. Naturally all capital expenditure is constantly under review and further reductions will be made in this area. The majority of this capital expenditure relates to the completion of the high density sludge project. This project will enhance the acid neutralisation circuit at the plant to the benefit of both the high pressure acid leach (HPAL) and heap leach processing streams. Additionally, it will provide substantial operating cost savings in relation to calcrete and water consumption. Our current estimate for new capital expenditure in 2009 is approximately \$30 million at the Murrin Murrin Joint Venture level, together with an estimated carryover of \$20 million from 2008. This capital is currently being provided from cash reserves.

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Minara has reported its production results for the quarter ended 30 September 2008. In the previous Open Briefing dated 8 August 2008, you detailed some of the cost pressures experienced to mid-2008. Can you please provide an update, particularly on sulphur prices?

**MD Peter Johnston**

All companies in the resources sector have experienced sustained increased cost pressures across the board. In particular, labour, materials, freight and fuel have put upward pressure on the operating costs of Minara and others.

The major cost pressure for Minara, as previously advised, was the unexpected rapid increase in sulphur prices. Sulphur is the most costly input for production of nickel and cobalt at Murrin Murrin. It's converted on site into sulphuric acid, which is used to leach nickel and cobalt from the laterite ore. Minara uses approximately 11-13 tonnes of sulphur per tonne of nickel produced, depending on the particular metallurgical characteristics of the ore processed.

Minara's sulphur price for the last 10 years had not exceeded approximately US\$100 per tonne FOB. By mid 2008, the sulphur spot price increased to US\$700-800 per tonne FOB. It's important to note that we don't buy sulphur on the spot market. All our sulphur is supplied via long term contracts, ensuring continuity of supply with pricing terms that remove some of the spot market volatility. Regardless, the price that Minara pays for sulphur has risen significantly during 2008, resulting in increases in both working capital requirements and the cost of nickel production.

In recent weeks, the sulphur spot market price has fallen significantly with trades at US\$300 per tonne and the market is showing signs of continued weakness. It is expected that the decreases in spot prices will flow through to Minara's long-term contracts in 2009. Taking into account our current stock levels of sulphur, we expect these price decreases to flow through to the income statement in the June quarter of 2009.

Industry research points to spot sulphur prices continuing to fall into and throughout 2009. Indeed, some analysts are predicting sulphur prices as low as US\$150 per tonne by the end of 2009 with further falls in 2010. Within Minara, we are constantly monitoring the sulphur market and adjusting our business plan accordingly. We have adopted what we consider conservative sulphur price assumptions in our business plan for the remainder of 2008 and 2009.

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In the last Open Briefing interview you said that the strengthening of the Australian dollar during the June 2008 half year was a major influence on profit. Has this changed? How will recent movements in the currency impact cash flow and profitability?

**MD Peter Johnston**

The majority of Murrin Murrin's input costs are Australian dollar denominated with the exception of sulphur and some maintenance parts, which are imported and US dollar based. These US dollar based costs provide a natural hedge to fluctuations in the Australian dollar exchange rate.

All of our nickel and cobalt revenue is priced in US dollars. As a result, while the Company is more sensitive to movements in nickel and cobalt prices, the exchange rate is still an important factor.

Throughout the year there has been substantial volatility in the Australian dollar. However, since the middle of the year, the exchange rate has decreased significantly to the overall financial benefit of the Company.

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You previously advised that the business plan for Minara is to produce a stable production profile, focussed on cost reduction and reducing discretionary expenditure. Is the business plan on track and have you been successful with your cost reduction programs?

**MD Peter Johnston**

Since the resumption of gas supply following the Varanus Island incident, our production profile has been relatively stable. Production guidance for 2008 is between 31,000 to 35,000 tonnes of nickel, although we expect we will be at the lower end of this range.

Over the last few months we have made good progress in optimising production and reducing costs. We set a target to achieve cost reductions over the next 12 to 18 months of \$100 million at a Murrin Murrin Joint Venture. I can report that we are achieving significant cost savings and I believe that we are on track to exceed our target.

A significant change was to reduce our sulphur usage during this period of inflated sulphur prices. We have developed a new mine plan focusing on low magnesium ore, which will result in a reduction of sulphur requirements over the next 12 to 18 months. The nickel grade for the low magnesium ore is not affected and most of our low magnesium ores are quite close to the plant. Additionally, the Company has reviewed its optimal sulphur stockpile levels. The net impact is that the Company will reduce sulphur usage by approximately 10%.

Also, as previously advised, we reduced both our contractor and our own workforce to achieve our target for labour cost reductions. We achieved this with minimal disruptions to the business.

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Minara's focus remains on optimising HPAL production and on fine-tuning and enhancing the heap leach technology. Can you explain what you are doing in both areas?

**MD Peter Johnston**

Our focus is predominantly on achieving stable production from our HPAL circuit given that it accounts for 95% of our production. We have been concentrating on a back-to-basics review of all production processes in order to reinforce operational stability. This review encompasses our entire production process; HPAL circuit, refinery and the supporting utilities plants.

We are continuing to operate the existing heap leach plant and are gaining knowledge about how to optimise the production circuit. This year we expect to produce approximately 2,000 tonnes of nickel from heap leach.

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How do the changes in the key drivers we've discussed affect Minara going forward?

**MD Peter Johnston**

This year, key drivers of Minara's performance such as the nickel price, cobalt price, sulphur price and the Australian dollar exchange rate have been and continue to be extremely volatile. A change in any one of these will have a significant impact on our profit results. Uncertain global conditions are exacerbating the volatility of these performance drivers and this makes forecasting extremely difficult. The Company closely monitors all of these markets and our current assumptions reflect our best estimates today.

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You mentioned the decline in the nickel price. What is your view on the outlook for nickel and cobalt prices?

**MD Peter Johnston**

The nickel market fundamentals remain sound and we believe that the outlook is positive in the mid to longer term. The major driver of nickel production in the world is the stainless steel market, which is still forecast to grow in 2009. That growth should underpin a reasonable nickel price outlook. However, there has been softening of the stainless steel market in Europe and China in the last three to six months. It is important to note that market analysts believe that some of the Chinese pig iron nickel production, which has had a major market impact in the last two years, is uneconomic at current prices and I believe we are seeing production cuts at some of these operations. Additionally, there have been production cuts at a number of other operations including Falcondo, Jinchuan and BHP (nickel smelter rebuild).

We have seen increased volatility in the cobalt price, recently hitting a low of US\$24 per pound, although it rebounded to approximately US\$33.50 per pound. Cobalt is an important by-product revenue stream for Minara and we forecast that approximately 20% of our sales revenue this year will be generated from cobalt with Murrin Murrin expected to produce 2,100 tonnes of cobalt.

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Thank you Peter.

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For more information about Minara Resources Limited, visit <http://www.minara.com.au/> or call David Pile (CFO) on (08) 9212 8400 or David Griffiths on 0419 912 496.

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