

Interview with Mick Muir, chairman of Arafura Resources (ASX: ARU)

By Kris Sayce

This week we sat down for a chat with Arafura Resources chairman Mick Muir. I wanted to find out how things were progressing with the Nolans Project in the Northern Territory. A few days after we met, more news came out from Arafura on a deal with Chinese company Bao Tou Steel. It turns out that Mick was hoping to be able to give us the details when we met but the contract hadn't been signed in time. We have more information on that in the Share Tip Updates section.

Kris Sayce (ASI): For those subscribers who aren't familiar with Arafura Resources and rare earths can you give them a brief summary of the Nolans Project?

Mick Muir (ARU): Nolans is truly a unique ore body. The size won't be known for many years, giving a long life operation. The multiple commodity stream takes pressure off any one of the products. The ore occurs from the surface which leads to relatively low cost open cut mining with little overburden.

And whilst the deposit looks remote, it is only a few kilometres from the all weather Stuart Hwy, and close to a gas pipe line. Alice Springs is 135 Kms to the south and a good rail loading point for either north to Darwin or south to Port Pirie.

The first few years will see the focus on production for export, however there will probably be a move to downstream processing at a later stage. The REO mix is at the high end of the value chain with the Europium and Neodymium (Nd) being higher than other ore bodies.

ASI: ARU recently announced a rights issue (which ASI has recommended that ARU owning subscribers take up) to raise \$26 million. How is this progressing given the current market conditions?

ARU: The rights issue now closes on the 21st November. We extended the closing date due to the late arrival of prospectuses, plus the release of new resource figures. We expect to receive the bulk of acceptances just before closing date. The feedback we are getting from shareholders is that they are in favour of the issue and many will support the fund raising. We have included a credit card facility for the issue and this has proved popular.

However, these are tough times and people are concerned about the world financial scene. The Directors have the right to offer any shortfall in a placement at not less than 28c within the next three

months. Although Directors are not allowed to take any of the placement shares for themselves. Some institutional investors have indicated they would be willing to participate in the placement if required.

ASI: Most investors and the public would never have heard of rare earths, have you found this to be a challenge when trying to attract interest from brokers, analysts and institutional investors?

ARU: In the early period of Arafura, very few people – including us - had heard of Rare Earths (REE) also known as Lanthanides. When the potential of the Nolans deposit was realized, we went on a rapid learning curve. We had to gain information from websites such as the RIC (Rare Earth Information Centre). The USGS publication on the strategic value of REE is a valuable reference and I recommend it to interested parties. You can find it at www.usgs.gov and search for 'rare earths.'

Recently, the REE story has become a little more understood. The development of the Toyota Prius and other electric type vehicles has helped spread the word. Other uses such as low energy light bulbs and Catalytic converters in motor vehicles, are becoming well known.

However it is the development of the Neodymium (Nd) magnet that has had the biggest impact. The Nd magnet is permanent, smaller and more powerful than the traditional ferric variety. The use of Lanthanum in rechargeable batteries has increased as hybrid vehicle sales increase. In fact, one estimate stated there were over 75 electric motors in a BMW Station Wagon. European investors were and are more aware of REO and so we have a large number of German shareholders on our register.

ASI: The Nolans project is the flagship resource for ARU. Is ARU continuing to explore for other rare earths deposits?

ARU: Whilst Nolans is the most important project for us, we are looking at other potential supply situations.

ASI: Your recent resource upgrade states there is now 30 million tonnes of resource with an REO content of about 2.8%. What is the realistic level of annual production you think ARU can achieve and what would this equate to in annual revenue?

ARU: The increase in resources may mean a

production increase at a future stage but our business plan at the moment calls for the following annual production:

Ore	Price Per Unit	Total
20,000 tonnes Rare Earth Oxide (REO)	USD\$14,000 per tonne	USD\$280,000,000
160,000 tonnes Phosphoric Acid (50% P2O5)	USD\$1,500 per tonne	USD\$120,000,000
150 tonnes U3O8 (330,000 lbs)	USD\$50 per lb	USD\$16,500,000
400,000 tonnes Calcium Chloride	USD\$100 per tonne	USD\$40,000,000
Total		USD\$456,500,000

That totals about AUD\$700 million with our current estimate for annual operating costs of \$250 million.

The operations at the pilot/demonstration plant are showing areas where we may be able to reduce operating costs with chemical inputs. Our early planning was for chemicals to be imported so the freight component was high. Recent planning includes chemical plants to be constructed alongside the REO, phosphate and uranium extraction facilities.

ASI: Are you seeing evidence of slowing demand or interest in rare earths?

ARU: The demand for REO has traditionally been

increasing at around 10% per annum. Moves outside this range generally follow new R&D applications, such as the Nd magnet. Recently, major end users from outside China such as Japan, Europe and USA have become concerned the Chinese would not be able to keep up with demand. This included manufacturers of electronics, whitegoods and motor vehicles. China has imposed export restrictions and tariffs on exports.

China has indicated it will consume most of its production in the future. This means there may be some short term easing of demand as the world financial problems bite, but the medium and long term future looks very positive.

ASI: Which products/uses of rare earths do you believe offer the best opportunity for increasing demand of rare earths?

ARU: The magnet industry continues to show spectacular growth through the production of electric motors both big and small. Cerium is being used in replacement for platinum in motor vehicle catalysts. Plus the move to low energy light bulbs is having an effect on the demand on the 'heavy' REO's. Plasma panel screens are also a significant user. The potential for further upside could come from "magnetic refrigeration" which is being developed by GE and Japanese companies. ■

Share Tip Updates

Arafura in Rare Deal with China

The big news this month from Arafura was the "signing of a Memorandum of Understanding (MOU) with Inner Mongolia Bao Tou Steel Rare Earth Hi-Tech Co., Ltd." According to the press release Bao Tou is "the largest producer of rare earths in the world and is a recognised leader in processing, separation and marketing of rare earths products."

Let's go through the two key points of the deal. First is that China currently supplies over 90% of rare earths to the world market. However, due to the demand requirements in its domestic market the Chinese government has placed tariffs on exports to reduce the amount of rare earths flowing out of China.

Consequently the development of the Nolans Project will present an excellent opportunity for Arafura to pick up some of the slack into markets where Chinese rare earths are no longer going.

Second is the expertise that Bao Tou will bring to Arafura. As the largest producer of rare earths in the world Bao Tou has unmatched experience and contacts with those global companies that Arafura will need to market to.

Of course it isn't a one-way street. Bao Tou will want

to get something out of this deal as well. Because of the tariffs imposed by the Chinese government, its partnership with Arafura will give it the chance to re-engage with the global market.

At some stage we would not be surprised if Bao Tou tried to buy an equity stake in Arafura.

Linc to Relocate GTL to South Australia

Surprise news from Linc Energy this week. And we won't beat around the bush, it's disappointing. The information we have so far is only based on what has been publicly released by the company. However we will get any further information that we can from the company and report back to you.

Linc's original plan involved building a commercial plant at Chinchilla. The \$900k cost to build the plant is due to be paid for from the sale of the Emerald coal tenement.

Due to a legal stoush with BG Group and Queensland Gas, Linc have decided to pick up their stuff and move lock, stock and GTL facility to the Arckaringa Basin in South Australia. The resource at Arckaringa Basin was acquired by Linc as part of the takeover of SAPEX, which was completed last month.

The legal dispute with BG/QGC is a result of

