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# Rare support carries Nolans

Twenty-four million dollars seems arguably a modest price to pay for a 25% stake in a company with a plus-20 year project supplying not one but three commodities which will play key roles in powering the future.

However, given Arafura Resources Ltd's \$61 million market cap, and the fact the share purchase was made at a premium, Chinese company East China Exploration (ECE)'s farm-in is considered a good result by Arafura in this troubled market.

And in light of the messy dispute over Lynas Corporation Ltd's \$US95 million convertible bond facility – which saw it return to the drawing board over finance for its Mt Weld rare earths project – Arafura must be feeling blessed.

Subject to shareholder approval, the deal will allow Arafura to progress its Nolans rare earths-phosphate-uranium project to BFS stage and put it on track for production in 2011 as the world economy regroup.

Managing director Alistair Stephens said most importantly, ECE was not a fund manager but a strategic partner which would help facilitate financing for the project in the development phase.

Perhaps proof of ECE's broader commitment is its agreement to farm into other Arafura assets in the Northern Territory, as well as activating new ventures.

"ECE is looking for growth opportunities," Stephens said. "They have identified copper as being of high interest."

Nolans, 135km north-north-west of Alice Springs, has total resources equivalent to 848,000t rare earths oxide (REO), 3.9mt phosphoric acid and 13.3 mlb uranium.

Arafura recently completed an 18 month demonstration plant trial at the Australian Nuclear Science and Technology Organisation (ANSTO), which proved recoveries of its products were among the best for rare earths deposits in the world.

Stephens said because Nolans rare earths were phosphate-hosted, the separation process was much more successful than typical sedimentary rare earths deposits and recoveries of up to 80% were achievable.

"In essence, we have 675,000t REO that's extractable."

Just proving it could create a saleable product in a pilot plant gave Nolans a competitive edge.

"This sets our project apart from any others in the world. It takes it from laboratory scale to commercial scale, and no-one else has done that at the pre-production level."

Nolans is to produce 20,000 tpa REO, 150,000 tpa phosphoric acid and 150-200 tpa uranium.

The major application of REO is in hybrid cars and wind turbines. China is both the biggest producer and consumer of rare earths, of which about 140,000t were produced in 2008.

Stephens said with ECE's help, Arafura would seek a JV partner for Nolans – to "share risk, share capital and leverage off market and industry expertise".

Any partner would double as the major off-take client for the REO product.

Meanwhile, Stephens cited a strong demand for phosphate off-take domestically, saying a significant local supply would lower the risk for farmers having to import phosphate.

Test work at the ANSTO pilot plant suggested Nolans could produce 90,000 tpa of premium, fertiliser-quality phosphate, equal to 15-20% of Australia's current import needs.

Arafura's PFS for Nolans, released in October 2007, calculated a \$750 million capex. Even though it has since been revised to \$600 million, Stephens admitted the company had been criticised for the heavy figure, which he described as "very conservative" and based on a model of sourcing and constructing the plant locally.

However, he said, the decreased cost of raw materials and a revised plan to manufacture most of the plant overseas would see costs reduced significantly.

"We would hope to see that come under \$500 million at the end of the bankable feasibility study."

The BFS is due for completion early in 2010, with technical designs to be filed by the end of this year.

Amid the positive news of ECE's involvement, Arafura suffered a setback when Incitec Pivot reneged on a Heads of Agreement to jointly develop a chemical supply plant for Nolans.

Incitec Pivot signed on in August last year.

Stephens said the disintegration of the agreement was "disappointing but understandable, and not unexpected". He said Arafura had had discussions with other companies in parallel with the Incitec Pivot agreement, and as a result expected a new agreement to be confirmed mid-year.

While it is easy to consider Arafura in the context of a junior mounting a big project in trying conditions, the presence of Federal Mines Minister Martin Ferguson to meet delegates from ECE at Nolans in April will serve as a reminder that the project is of national interest.

There are few operating rare earths projects in the world, and even less significant development projects moving to fruition.

"It's a major project for Australia. It will also have a major flow-on effect on the aspirations of the Rudd Government regarding hybrid cars and wind technology and creating an energy efficient future," Stephens said.

– Andrew Pascoe



**Arafura Resources' Nolans Bore rare earths project in the Northern Territory**