

Arafura Resources Limited

ABN 22 080 933 455

Prospectus

For a pro-rata non-renounceable rights issue by Arafura Resources Limited (“Arafura”) to Eligible Shareholders, of 1 New Share for every 3 Shares held at an issue price of \$0.60 per New Share.

Eligible Shareholders may apply for New Shares in excess of their full entitlement.

This Offer is not underwritten.

The Rights Issue closes at 5.00pm Perth time on 22 November 2011 (or such later date as the Directors, in their absolute discretion and subject to compliance with the Listing Rules, may determine).

This Prospectus is not for general circulation or distribution and has or will be issued, circulated and/or distributed only to Eligible Shareholders. The offer to participate in the Rights Issue is made personally to Eligible Shareholders to whom the Prospectus has been issued, distributed or circulated. The Offer to participate in the Rights Issue is not made to any other persons and is not to be accepted by any other persons and any other person may not subscribe for the New Shares on offer under this Prospectus..

This document is important and requires your immediate attention. It should be read in its entirety. If you do not understand its contents, or are in doubt as to the course that you should follow, you should consult your stockbroker or professional adviser.

Important information

Important notice

You should read this entire Prospectus carefully. It is important that you consider the risk factors (see Section 4) that could affect Arafura's financial performance, before deciding on your course of action.

This Prospectus is dated 18 October 2011. A copy of this Prospectus was lodged with the ASIC on 18 October 2011. This Prospectus expires on the Expiry Date of 28 February 2012 and no New Shares will be allotted or issued, on the basis of this Prospectus, after this time.

Arafura will apply to the ASX for the New Shares to be quoted on the ASX within 7 days after the date of this Prospectus.

Applications for New Shares and Additional Shares offered pursuant to this Prospectus can only be submitted on an original Entitlement and Acceptance Form that accompanies this Prospectus. The Entitlement and Acceptance Form sets out a shareholder's Entitlement to participate in the Offer and the Shortfall Offer. Eligible Shareholders who do not take up their Entitlement will have their existing interest in Arafura diluted. Please refer to Section 1 for details of how to accept the Offer.

Arafura has not authorised any person to give information, or to make any representation, in connection with this Prospectus that is not contained in the Prospectus or inconsistent with it. Any information or representation not so contained, or inconsistent with the information in this Prospectus, may not be relied on as having been authorised by Arafura in connection with this Prospectus.

Some words in this Prospectus have defined meanings. The definitions appear in Section 8 at the end of this Prospectus. References to dollars are to Australian dollars unless otherwise indicated.

This Prospectus contains an Offer to Eligible Shareholders in Australia or in New Zealand of continuously quoted securities (as defined in the Corporations Act) and has been prepared in accordance with section 713 of the Corporations Act. In making representations in this Prospectus, regard has been had to the fact that Arafura is a disclosing entity for the purposes of the Corporations Act and certain matters may reasonably be expected to be known to investors and professional advisers whom potential investors may consult. Please refer to Section 1 for further information concerning the nature of this Prospectus.

Neither ASIC nor the ASX take any responsibility for the contents of this Prospectus, or the merits of the investment to which this Prospectus relates.

Foreign Shareholders and Foreign jurisdictions

The New Shares are offered to Eligible Shareholders only.

The New Shares are not offered to Ineligible Foreign Shareholders. Ineligible Foreign Shareholders will not be sent this Prospectus.

The New Shares being offered under this Prospectus are being offered to Eligible Shareholders with registered addresses in New Zealand in reliance on the *Securities Act (Overseas Companies) Exemption Notice 2002* (New Zealand).

No member of the public in New Zealand may accept the Offer made under this Prospectus except in reliance on the *Securities Act (Overseas Companies) Exemption Notice 2002* (New Zealand). This Prospectus is not an investment statement or prospectus under New Zealand law and has not been registered, filed with or approved by any New Zealand regulatory authority or under any relevant law in New Zealand. This Prospectus may not contain all the information that an investment statement or prospectus under New Zealand law is required to contain.

This Prospectus does not constitute an offer in any place where it would not be lawful to make such an offer, nor does it constitute an offer to any person to whom it would not be lawful to make such an offer.

Future performance

Except as required by law, and only then to the extent required, neither Arafura nor any other person guarantees the future performance of Arafura or any return on any investment made pursuant to this Prospectus.

Chairman's letter

18 October 2011

Dear Shareholder,

This Prospectus details your non-renounceable entitlement to the recently announced capital raising by way of a shareholder's rights issue and the areas where the funds will be applied.

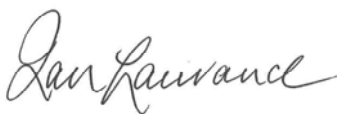
This capital raising is required to advance the Nolans Project towards the stage of bankable feasibility that will allow Arafura to commercialise production of rare earths oxides, phosphate, gypsum and uranium oxide from the proposed Nolans Bore Mine at its proposed Rare Earth Processing Complex at Whyalla, South Australia.

With prices of rare earths products having significantly increased over the past 2 years. Arafura seeks to maintain the forward momentum to bring the Nolans Project to commercial production.

Highlights of this Rights Issue are;

- Eligible Shareholders will be able to subscribe for one New Share for each three Shares currently held.
- The price of each New Share will be \$0.60.
- The issue will not be renounceable. If you do not take up your entitlement, Arafura may place your Entitlement in accordance with this Prospectus.
- Eligible Shareholders who take up their full Entitlement may apply for additional New Shares that may become available if there is a shortfall in the New Shares applied for.
- Arafura will be able to place the Shortfall at not less than the price of \$0.60 per New Share.
- The Rights Issue is not underwritten.

Your Board of Directors recommends this Rights Issue to you in the belief that the program outlined in this document will deliver shareholder value in the future. Directors Stephen Ward, Terry Jackson and I each own or control shares in the Company and have stated that our intention is to take up our Entitlement in full.



Ian Laurance
Chairman

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Summary of Important Dates

Table 1: Rights Issue Key Dates

Announcement of Arafura Rights Issue	18 October 2011
Date of Lodgement of Prospectus with ASIC	18 October 2011
Notice of Rights Issue sent to Arafura Shareholders	20 October 2011
Rights Issue Record Date to determine Entitlements	27 October 2011
Prospectus with Entitlement and Acceptance Form despatched to Eligible Shareholders	02 November 2011
Acceptances Open	02 November 2011
Closing Date for acceptances and receipt of applications under the Rights Issue	22 November 2011
New shares are quoted for ASX trading on a deferred settlement basis	23 November 2011
Snapshot date to determine Shares entitled to be voted at Annual General Meeting	5pm on 23 November 2011
Annual General Meeting	25 November 2011
Shortfall notification to the ASX	25 November 2011
Allotment of New Shares and despatch of holding statements for New Shares (3)	25 November 2011
Normal ASX Trading T+3 for New Shares issues under Rights Issue commences	28 November 2011

Notes:

1. The above dates are indicative only and may change without notice.
2. Subject to the Listing Rules, the Directors reserve the right to either extend the Closing Date of the Offer (by giving at least six Business Days notice to the ASX prior to the Closing Date) at their discretion, or place or arrange to place the Shortfall Shares. An extension of the Offer will have the corresponding effect on the anticipated date of issue and normal trading of the New Shares under this Prospectus.

3. The snapshot date to determine Shares entitled to be voted at the Annual General Meeting occurs at 5pm 23 November 2011. As a result New Shares allotted on 25 November will be ineligible to be voted at the Annual General Meeting.

Definitions

Throughout this Prospectus, various words and phrases have been capitalised and defined, rather than used in full on each occasion. The definitions of these capitalised words are set out in Section 8.

2 Details of the Offer

2.1 Offer of New Shares

This Prospectus invites Eligible Shareholders to participate in a pro-rata non-renounceable Rights Issue on the basis of 1 New Share for every 3 Shares held on the Record Date, at an issue price of \$0.60 per New Share.

The number of New Shares that are issued will vary depending on the number of Vested Options that are exercised prior to the Record Date. If no Vested Options are exercised prior to the Record Date then approximately 122,660,114 New Shares will be offered under the Rights Issue. If all of the Vested Options are exercised prior to the Record Date then approximately 127,320,114 New Shares will be offered under the Rights Issue.

If no Vested Options are exercised prior to the Record Date and all of the Eligible Shareholders take up their Entitlement in full, the Rights Issue will raise approximately \$74 million before costs. If all of the Vested Options are exercised prior to the Record Date and all of the Eligible Shareholders take up their Entitlement in full, the Rights Issue will raise approximately \$76 million before costs.

The Rights Issue will open for receipt of acceptances at 9.00am Perth time on 2 November 2011 and will close at 5.00pm Perth time on 22 November 2011, or such later date as the Directors, in their absolute discretion and subject to compliance with the Listing Rules may determine. **You should allow sufficient time to ensure that your Entitlement and Acceptance Form reaches the Share Registry by the specified time.**

Holders of existing Options will not be entitled to participate in the Rights Issue unless they hold Vested Options and they exercise those Vested Options and are issued Shares prior to the Record Date. Holders of Vested Options are advised to exercise their Vested Options as soon as possible if they want to participate in the Rights Issue and in any event at least 3 clear Business Days before the Record Date. Holders of Options that are not vested are not able to exercise those Options.

Your Entitlement is shown in the accompanying Entitlement and Acceptance Form. In the calculation of any Entitlement, fractions will be rounded up to the nearest whole number, and for this purpose holdings in the same name will be aggregated for calculation of Entitlements.

2.2 Rights Issue is not Underwritten

The Rights Issue is not underwritten.

2.3 Use of funds

The purpose of this Offer is to raise funds to enable Arafura's Nolans Project to be further developed to an advanced stage so as to improve Arafura's ultimate ability to access capital and debt markets.

There are currently 16,480,000 employee and directors share options on issue and Arafura intends to issue a further 3,500,000 employee share options. Of the employee and directors' share options on issue, 13,980,000 have vested and are eligible to be exercised before the Record Date. If none of the Vested Options are exercised before the Record Date and all of the Eligible Shareholders take up their Entitlement in full, Arafura will raise approximately \$74 million under the Rights Issue.

The funds raised under this Offer, together with Arafura's existing cash reserves, will primarily be utilised to:

- fund mining and beneficiation studies for the Nolans Bore Mine;
- progress the Nolans Project feasibility study towards bankability;
- fund Arafura's comprehensive technology programs, including demonstration scale plant activities;
- fund detailed design pre-construction engineering works and deposits and pre-payments to schedule long-lead items and other assets; and
- provide general working capital for Arafura.

It is intended that the proceeds of the Rights Issue, together with Arafura's existing cash will be applied as follows, principally during the 2012 calendar year.

Use of funds	A\$ million Amount applied from this Rights Issue
Nolans Bore Mine • Mining and beneficiation studies	3.9
Whyalla Rare Earths Processing Complex • Rare earths technology and demonstration programs • Process flowsheet simplification	8.2 15.4
Overall engineering design and BFS compilation.	15.1
Detailed design pre-construction and asset purchases	15.0
Sales and marketing	0.5
Corporate advice, commercial and administrative expenses and working capital	5.7
Cash reserves	10.0
Expenses associated with this capital raising	0.2
Total Expenditure & Working Capital	\$74.0

For more detail on the use of funds refer to section 2.

If some or all of the Vested Options are exercised before the Record Date and all of the Eligible Shareholders take up their Entitlement in full then Arafura will raise more than \$74 million under the Rights Issue. Arafura will use each additional dollar raised above \$74m for cash reserves.

The Offer is not underwritten. If all of the Eligible Shareholders do not take up their Entitlement in full and it is not possible to place the entire Shortfall then Arafura may raise less than \$74 million under the Rights Issue. In this case, it is intended that the gross proceeds of the Rights Issue will be applied as set out below.

Use of funds if less than the full amount is raised	A\$million Amount raised in this Rights Issue
Expenses associated with this capital raising	The first 0.2
Mining and beneficiation studies (Nolans Bore Mine)	The next 3.9
Rare earths technology and demonstration program (Rare Earths Processing Complex)	The next 8.2
Process flowsheet simplification (Rare Earths Processing Complex)	The next 15.4
Overall engineering design and BFS compilation	The next 30.1
Pro rata across sales and marketing, corporate advice, commercial and administrative expenses and Working Capital	The next 11.1
Total	\$74.0

If all of the Eligible Shareholders do not take up their Entitlement in full and it is not possible to place the entire Shortfall, then Arafura will then seek alternative fund raising sources.

Arafura does **not** seek to raise a minimum amount under the Rights Issue. In the event that insufficient funds are raised to meet the expenses of the Rights Issue Arafura is able to use its existing working capital to meet the expenses of the Rights Issue.

2.4 Opening Date and Closing Date

The Rights Issue will open on 2 November 2011 (“**Opening Date**”) and close at 5.00pm Perth time on 22 November 2011 (or such later date as the Directors, in their absolute discretion and subject to compliance with the Listing Rules, may determine) (“**Closing Date**”).

Completed Entitlement and Acceptance Forms must be received at Arafura’s Share Registry by the Closing Date, together with payment, in Australian dollars, for the amount of the application.

2.5 How to take up your Entitlement

Under the Rights Issue, you may apply for 100% of your Entitlement or more than 100% of your Entitlement in accordance with Section 1.6 of the Prospectus.

Alternatively, you may apply for a portion less than your Entitlement by using the personalised Entitlement and Acceptance Form mailed to you with this Prospectus. This form details your Entitlement and should be completed in accordance with the instructions set out on its reverse side.

It is important that Eligible Shareholders understand that if they do not take up their Entitlement they will have their existing interest in Arafura diluted.

2.6 Additional Shares

Any part of your Entitlement under the Rights Issue not taken up will form part of the Shortfall.

The Offer of Additional Shares is a separate offer pursuant to this Prospectus. The issue price of any Additional Shares shall be \$0.60, being the price at which the Rights Issue has been offered to Eligible Shareholders pursuant to this Prospectus.

If you wish to take up your Entitlement under the Rights Issue in full and apply for Additional Shares, you should complete the accompanying Entitlement Acceptance Form indicating how many Additional Shares you wish to apply for and return it, together with payment for the full amount payable, so that it is received by no later than the Closing Date.

The Directors reserve the right to allot and issue the Additional Shares at the discretion of the Directors.

The Directors have the right to allot the entire Shortfall and accordingly there is no guarantee that applications for Additional Shares will be successful either in whole or in part. Under the Shortfall Offer, the Directors may allot applicants a lesser number of Additional Shares than the number for which the applicant applies or reject an application.

To ensure that the allotment of the Shortfall is not included in Arafura's 15% cap on the issue of new capital:

- (a) Arafura will make the allotment within 3 months after the close of the Offer under the Rights Issue; and
- (b) the issue price will not be less than the price at which shares were offered under the Rights Issue.

In the event that the entire Shortfall is not placed to existing shareholders, the Directors reserve the right to allot and issue the outstanding balance to new shareholders in accordance with the Corporations Act. Arafura may pay a commission and/or management fees where those shares are placed by a Participant of the Australian Securities Exchange and actually issued by Arafura

No interest will be paid by the Company for refunds on unsuccessful applications.

2.7 Issue and Allotment of New Shares

The New Shares and Additional Shares will be issued fully paid and, from the date of issue, will rank equally in all respects with Shares. Details of the rights attaching to ordinary shares in Arafura are set out in Section 5.1.

By returning your Entitlement and Acceptance Form, you agree to comply with the Arafura Constitution in respect of the New Shares and Additional Shares issued to you. Details of the rights attached to Shares are set out in Section 5.

Until issue and allotment of the New Shares and Additional Shares, the Application Monies will be held on trust in a separate bank account opened and

maintained for that purpose only. Any interest earned on the Application Monies will be for the benefit of Arafura and will be retained by it irrespective of whether allotment of the New Shares or any Additional Shares takes place. No allotment of New Shares or Additional Shares will take place until the proceeds of the Rights Issue have been received and the ASX grants permission to quote the New Shares or Additional Shares (as appropriate).

2.8 ASX Quotation of the New Shares

Arafura will make application to the ASX within 7 days following the date of this Prospectus for the official quotation of the New Shares.

Quotation, if granted, of the New Shares will commence as soon as practicable after statements of holdings for the New Shares are dispatched.

If approval for official quotation is not granted by the ASX within 3 months after the date of this Prospectus, Arafura will not allot or issue any New Shares and will repay all Application Monies (where applicable) within the time prescribed under the Corporations Act.

The admission of the New Shares to quotation on the ASX is not to be taken in any way as an indication of the merits of Arafura or the New Shares.

2.9 Foreign Shareholders

The New Shares are offered to Eligible Shareholders only.

The New Shares are not offered to Ineligible Foreign Shareholders. Ineligible Foreign Shareholders will not be sent this Prospectus.

2.10 Risks associated with not accepting your Entitlement

It is important that Eligible Shareholders understand the risks associated with not accepting their Entitlement.

If you elect to not accept your Entitlement in full under this Prospectus, your Shareholding in Arafura will be diluted. Please carefully consider whether to accept your Entitlement and, if you are in doubt as to whether to accept, you should consult your independent professional investment adviser.

2.11 Market prices of Arafura Shares on ASX

A summary of the sale prices of Arafura Shares on the ASX during the last 3 months until the last trading day on the ASX immediately prior to lodgement of this Prospectus with ASIC is set out below:

Table 2: Arafura Share Price History

	High (\$)	Low (\$)	Volume weighted average price (\$)
7 days	0.700	0.580	0.651
One month	0.700	0.460	0.602
Three months	0.790	0.460	0.649

The last market sale price of Arafura Shares on 17 October 2011 (which was the last day of trading before the announcement of the Rights Issue and lodgement of the Prospectus with ASIC) was \$0.665.

2.12 No brokerage and stamp duty payable on subscription under Entitlement

No brokerage or stamp duty will be payable by you in respect of a subscription for New Shares under your Entitlement.

2.13 Tax implications

Arafura makes no representation and provides no advice in relation to the tax consequences for any Eligible Shareholder of taking up their Entitlement under the Offer. Shareholders should seek professional taxation advice about the tax consequences of taking up the Entitlement.

2.14 CHESS

Arafura will not be issuing share certificates. Arafura will apply to the ASX to participate in CHESS for those investors who have, or wish to have, a sponsoring stockbroker. Investors who do not wish to participate through CHESS will be issuer sponsored by Arafura. Because the sub-registers are electronic, ownership of securities can be transferred without having to rely upon paper documentation.

Electronic registers mean that Arafura will not be issuing certificates to investors. Instead, investors will be provided with a statement (similar to a bank account statement) that sets out the number of New Shares and Additional Shares (where relevant) allotted to them under this Prospectus. The notice will also advise holders of their Holder Identification Number (**HIN**) or Shareholder Reference Number (**SRN**) and explain, for future reference, the sale and purchase procedures under CHESS and issuer sponsorship.

Further monthly statements will be provided to holders if there have been any changes in their security holding in Arafura during the preceding month.

2.15 Arafura's regular reporting and disclosure requirements

This Prospectus is issued pursuant to Section 713 of the Corporations Act as a prospectus for the Offer of continuously quoted securities.

Arafura is a “disclosing entity” for the purposes of Part 1.2A of the Corporations Act. As a disclosing entity, Arafura is subject to regular reporting and disclosure obligations. Broadly, these obligations require:

- the preparation of both yearly and half yearly financial statements, a report on the operations of Arafura during the relevant accounting period, together with an audit or review report by Arafura's auditor; and
- immediate notification to the ASX of any information concerning Arafura that it becomes aware of and which a reasonable person would expect to have a material effect on the price or value of the shares, subject to certain exceptions.

Copies of documents lodged with ASIC in relation to Arafura may be obtained from, or inspected at, any office of ASIC.

Normally a prospectus for the issue of securities of a company must contain all the information that investors and their professional advisers would reasonably require to make an informed assessment of each of the following:

- the assets and liabilities, financial position and performance, profits and losses and prospects of the company that is to issue the securities; and
- the rights and liabilities attaching to the securities offered.

However, in reliance upon section 713 of the Corporations Act, this Prospectus does not need to comply with this general disclosure test. Under section 713, the disclosure test applicable to any company offering securities, or options to acquire securities, in a class of securities that has been quoted on the ASX at all times in the 3 months before the date of the prospectus is a lower level of disclosure.

The lower level of disclosure that applies to this Prospectus requires the prospectus to contain all the information that investors and their professional advisers would reasonably require to make an informed assessment of:

- the effect of the Offer on the company; and
- the rights and liabilities attaching to the securities offered.

While Arafura is not required under section 713 to do so, it has included certain information for the benefit of investors in this Prospectus that addresses some, but not all, aspects of the general disclosure test. Some of the information in this Prospectus has previously been notified by Arafura to the ASX.

The ASX maintains detailed records of company announcements for all companies listed on the ASX. Copies of announcements made by Arafura may be obtained from the ASX.

ASIC also maintains records in respect of documents lodged with it by Arafura. Copies of documents lodged with ASIC may be obtained from or inspected at an ASIC office.

Arafura will provide a copy of each of the following documents, free of charge, to any person who asks for it during the period from the date of this Prospectus until the Closing Date:

- annual audited financial report for the year ended 30 June 2011 (being Arafura's most recent annual report lodged with ASIC before the date of this Prospectus);
- the half year financial report for the half year ended 31 December 2010 lodged with ASIC; and
- any continuous disclosure notices given by Arafura as shown in the following table (Table 3).

Table 3: Continuous Disclosure Notices

Date	Headline
30/09/2011	Nolans Rare Earths Project Technical Update September
05/10/2011	Mining the Northern Territory Presentation October 2011
10/10/2011	New Rare Earth Discovery near Nolans
12/10/2011	Northern Territory Investment Seminar- Speakers Notes
12/10/2011	Northern Territory Investment Seminar- Japan
13/10/2011	Rare Earths extend to depth at Nolans Bore

All requests for copies of the above documents should be addressed to the Company Secretary. The above information may also be obtained from Arafura's website at www.arafuraresources.com.au.

3 Overview of Arafura

3.1 Background and Summary

Arafura is an emerging company with a current single project focus on the development of its 100% owned Nolans Project for the commercial production of rare earths, phosphate, uranium oxide and gypsum.

Arafura was incorporated on 3 December 1997 and listed on the ASX on 5 November 2003. Arafura's corporate office is located in Perth, Western Australia, with regional offices in Darwin, Northern Territory and Whyalla, South Australia.

Arafura represents one of the few significant new supply sources of rare earths likely to be in production in the short to medium term.

Arafura announced a pre-feasibility study in October 2007 and is working towards completion of a Bankable Feasibility Study (BFS).

3.2 Products and Markets

Rare earths are a collection of chemical elements (the lanthanide series of elements in the periodic table with atomic numbers 57 through 71 and also include Yttrium (atomic number 39)). They are abundant in the earth's crust, but are seldom found in quantities that can be mined technologically and/or economically. Rare earths naturally occur in close association with radioactive minerals containing uranium, thorium and other elements.

Rare Earth Elements (**REEs**) have a diverse and ever increasing variety of applications in a number of sectors including the chemical, metallurgical, optical and energy industries. REEs are critical and strategic components in many high-tech developments.

There are several factors driving Rare earths demand. These include increased utilisation of rare earths for metallurgical applications and expanding markets for optical and energy applications. These applications are predominately associated with products in the electronics industry, energy efficiency, wind turbines and greenhouse gas reduction. They are in increasing demand worldwide.

As a key component in re-chargeable batteries and the magnets in electric motors, rare earths play a fundamental role in hybrid motor vehicles. These vehicles, which are fuel efficient and major contributors to the reduction of greenhouse gas emissions, contain approximately 13 kilograms of rare earths.

REEs are also used in key components in the electronics market, including mobile phones, personal organisers, laptop computers and LCD television screens. These technologies are experiencing rapid growth across the globe as electronic media becomes an essential part of personal apparel and business environments.

The Nolans Bore Mine contains a significant number of the individual REEs in varying quantities, the distribution of which is indicated in **Table 2.2.0**.

Arafura intends to produce rare earths as rare earth oxides, tailored to its customers' individual specifications. These will be in the form of crystalline powders that are safe to handle and store. They will be sold to customers worldwide in bulk bags and in 25 kg containers that are standard packaging for most specialty chemicals.

Rare earth oxide products are high value commodities, with September 2011 prices ranging from US\$71 to US\$3,790 per kilogram.¹

The prices of rare earth products have increased significantly over the past two years, partly due to the constraints placed on exporting by Chinese authorities. Demand continues to grow across the globe, with limited new supply sources outside of China expected in the near term.

Prices in rare earths as quoted by Metal Pages have increased markedly since July 2010, when the China Ministry of Commerce announced a drastic cut in rare earth export quotas. China currently represents approximately 95% of global supply and any restriction of supply translates into upward price pressure in global markets.

The combination of growing demand, coupled with limited supply, has pushed REE product prices up as is evident in the chart below, which depicts the value of the Arafura Nolans mix.

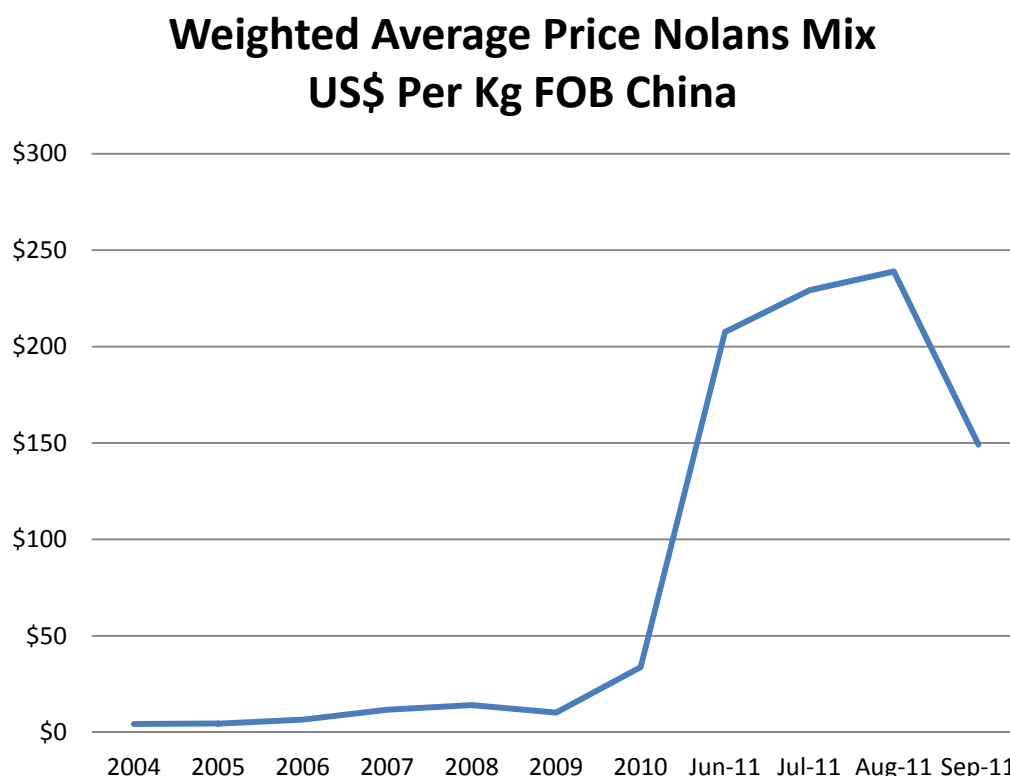
Table 2.2.0: Rare Earth Prices (US\$/KG) FOB China (Source: Metal Pages) *

	<i>Nolans REO Distribution</i>	<i>2010 Average</i>	<i>Dec-10</i>	<i>Mar-11</i>	<i>Jun-11</i>	<i>Aug-11</i>	<i>Sep-11</i>
<i>Lanthanum Oxide</i>	19.74%	\$24.63	\$60.00	\$96.00	\$148.00	\$171.50	\$79.00
<i>Cerium Oxide</i>	47.53%	\$23.18	\$61.00	\$139.00	\$149.00	\$158.00	\$71.00
<i>Praseodymium Oxide</i>	5.82%	\$48.60	\$86.50	\$214.50	\$238.50	\$248.50	\$218.50
<i>Neodymium Oxide</i>	21.20%	\$49.85	\$87.00	\$228.50	\$317.50	\$337.50	\$262.5
<i>Samarium Oxide</i>	2.37%	\$17.44	\$34.50	\$94.00	\$127.00	\$128.50	\$108.50
<i>Europium Oxide</i>	0.40%	\$557.08	\$630.00	\$1,270.00	\$2,990.00	\$5,870.00	\$3,790.00
<i>Gadolinium Oxide</i>	1.00%	\$23.53	\$45.00	\$157.50	\$202.50	\$202.50	\$162.50
<i>Dysprosium Oxide</i>	0.33%	\$232.96	\$295.00	\$715.00	\$1,485.00	\$2,840.00	\$2,290.00
<i>Terbium Oxide</i>	0.08%	\$542.08	\$605.00	\$1,270.00	\$2,910.00	\$4,510.00	\$3,210.00
<i>Yttrium Oxide</i>	1.32%	\$28.83	\$72.50	\$127.50	\$157.50	\$182.50	\$152.50
<i>Other</i>	0.21%	-	-	-	-	-	-
<i>Weighted Average Nolans Value- 1.</i>	100.00%	\$33.74	\$70.52	\$159.88	\$207.53	\$238.90	\$149.20

*Weighted Average Nolans Value is an in situ value achieved on the basis that all rare earth oxides are separated and sold as individual oxides. Individual oxide values are based on the last published price prior to the relevant month end.

¹ Reference: Metal Pages pricing, September 29, 2011

Table 2.2.1: Value of 1 kilogram of the Nolans Rare Earth mix between 2004 and 2011. (Source: Metal Pages)*



****Based on the Arafura Nolans Rare Earth mix set out in Table 2.2.0. Weighted Average Nolans Value is an in situ value achieved on the basis that all rare earth oxides are separated and sold as individual oxides. Individual oxide values are based on the last published price prior to the relevant month end.**

2.2.1 Letter of Intent (LOI) signed for Rare Earth Oxide Sales and Other Cooperation

In August 2011, Arafura executed a Letter of Intent (LOI) with ThyssenKrupp Metallurgical Products GmbH, a daughter company of ThyssenKrupp and a major German integrated materials and technology company.

The LOI includes and provides for:

- Development of an exclusive long-term commercial agreement between the parties for the sale of Arafura's Rare Earth Oxide products in Germany;
- Arafura and ThyssenKrupp Metallurgical Products working together to pursue potential funding for the Nolans Project; and
- ThyssenKrupp Metallurgical Products providing Arafura with logistical advice and assistance.

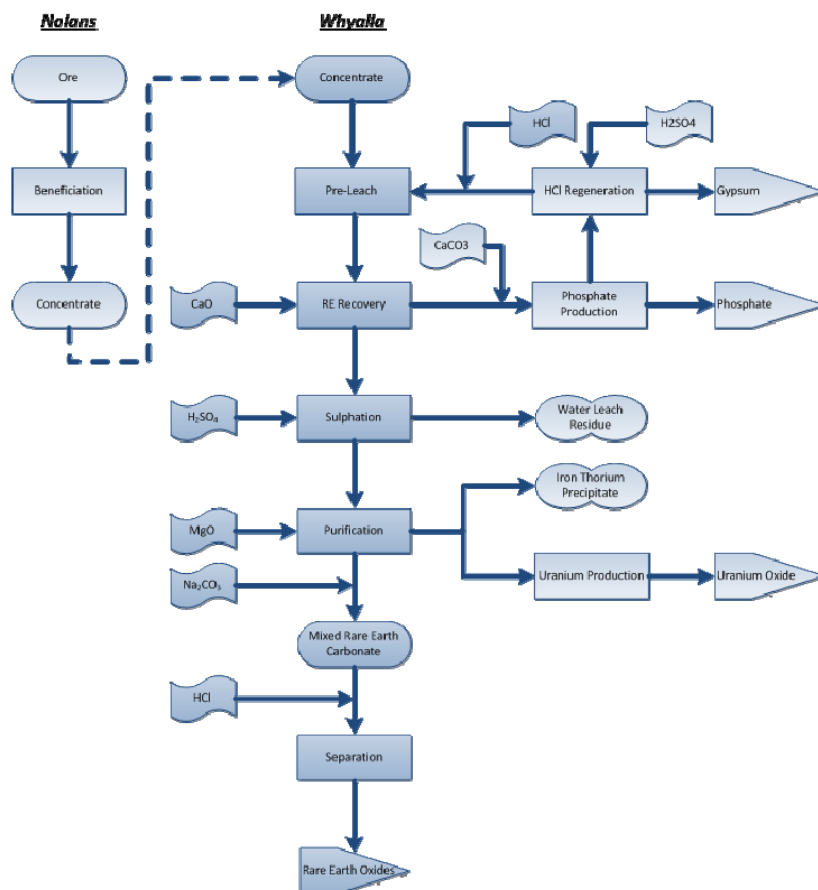
It is envisaged that once a formal commercial agreement is negotiated, agreed and signed, it will account for approximately 15% of Arafura's targeted annual rare earth oxides production from its Nolans Project. The final amount will be subject to the completion of the formal commercial agreement.

3.3 The Nolans Project

The Nolans Project is comprised of the proposed Nolans Bore Mine in the Northern Territory and a proposed Rare Earths Processing Complex to be located at Whyalla, South Australia.

The Current Nolans Project flowsheet is represented in the following table:

Nolans Project Flow Diagram



2.3.1 The Nolans Bore Mine

Location and Resource

The Nolans Bore deposit is located 135 kilometres north north west of Alice Springs in the Northern Territory of Australia. Exploration title over Nolans Bore is held under Substitute Exploration Licence SEL 28473 (314 km²). An application for a Mineral Lease over the Nolans Bore site (MLA 26659 – 1404 ha) was lodged with the Northern Territory Government on 14 February 2008. This application is subject to environmental approval following completion of studies and an Environmental Impact Statement (EIS) and the completion of a mining compensation agreement with the local Native Title holders. Until the application is granted, Arafura has the right to access, occupy and develop the Nolans Bore site by virtue of SEL 28473.

Nolans Bore is one of the largest identified deposits of rare earths outside of China. On 11 November 2008, Arafura published a JORC-compliant estimate of Identified Mineral Resources. This is based on more than 40,000 metres of drilling and costeaning, as follows:

Resource Category*	Tonnes (million)	REO %	P ₂ O ₅ %	U ₃ O ₈ lb/t
Measured	5.1	3.2	13.5	0.57
Indicated	12.3	2.8	13.4	0.43
Inferred	12.8	2.6	12.2	0.40
TOTAL	30.3	2.8	12.9	0.44

*Using a 1% REE cut off grade

Following a \$90 million capital raising in 2010, Arafura undertook a significant drilling program at Nolans Bore with three key objectives:

- to reduce resource risk by upgrading lower confidence (Inferred) resources into higher confidence (Indicated) resources;
- to assess the expansion potential of the resource, primarily at depth but also along strike; and
- to provide sufficient geotechnical and metallurgical data for mine design and beneficiation flow sheet development.

The program is now complete and involved in excess of 52,000 metres of drilling, which exceeds the total amount drilled into the Nolans Bore deposit over the previous decade. Preliminary results were reported to the ASX on 28 July, 22 August, 10 October and 13 October 2011.

Mine and Beneficiation

The Nolans Bore resource should be amenable to open pit mining. Arafura plans to mine, crush and grind the ore, and then process it through a beneficiation plant to upgrade it to a mineral concentrate.

The beneficiation process comprises standard metallurgical processes including crushing, screening, gravity separation and flotation to remove impurities. Waste material (tailings) from the mining and beneficiation process will remain at the site in standard mining tailings storage facilities.

Following beneficiation, Arafura plans to haul the mineral concentrate by road to a rail head approximately 65 kilometres to the east of the Nolans Bore Mine to allow transportation along the Darwin to Adelaide railway line to the Rare Earths Processing Complex, which will be located in the South Australian coastal industrial city of Whyalla.

Government approval for the Nolans Bore Mine is contingent on a detailed environmental approvals process, which includes extensive community engagement and comprehensive social impact and environmental studies.

Arafura is currently undertaking additional beneficiation test programs with the objective of achieving a higher-grade mineral concentrate. (Refer section 2.4 – Engineering Feasibility Study and Technology Programs)

The higher-grade mineral concentrates will reduce transport costs to the Rare Earths Processing Complex, the amount of reagents required to process the resource and the volume of by-products and residue streams to be stored at both the Nolans Bore Mine and the Whyalla Rare Earths Complex.

2.3.2 The Rare Earths Processing Complex

The Rare Earths Processing Complex will be located in Whyalla, South Australia on approximately 800 hectares of land subject to a Sale and Purchase agreement executed between Arafura and OneSteel Manufacturing Proprietary Limited. The final sale and purchase is subject to government approvals and a number of conditions precedent. Arafura has the right to access the site to continue with detailed engineering and environmental studies.

The mineral concentrate from the Nolans Bore Mine will be chemically separated at the Rare Earths Processing Complex. This process incorporates a pre-leach phase that will initially separate the rare earth minerals from the phosphate minerals. This will be followed by secondary processing of each stream to ultimately produce:

- rare earth oxides;
- a phosphate product;
- gypsum; and
- uranium oxide.

Following the initial pre-leach, the rare earths stream will be treated predominately with sulphuric acid, utilising technology developed and piloted by Arafura and ANSTO.

During this process, uranium and other impurities, such as iron, thorium and aluminium will be removed from the rare earths stream in order to produce saleable rare earth products. Arafura intends to recover and commercialise relatively small volumes of a uranium oxide as a by-product, whilst other residue streams, including an iron thorium precipitate, will be managed in accordance with the regulations and guidelines stipulated under the final regulatory approvals process to which Arafura will adhere.

Arafura is currently constructing a demonstration facility at ANSTO to refine the rare earths sulphation process and will also pilot fundamental processes including a simplified uranium circuit. (Refer section 2.4 – Engineering Feasibility Study and Technology Programs)

The original phosphate circuit included in Arafura's pre-feasibility study in October 2007 was specially designed to produce phosphoric acid together with a calcium chloride by-product.

Arafura is currently assessing opportunities to utilise a simplified phosphate circuit to produce a solid phosphate product. A solid phosphate product compared to a liquid product has a simplified flowsheet and if implemented will bring significant reductions in the consumption of utilities such as steam and water.

During 2011, Arafura operated a demonstration plant to treat a calcium chloride solution with sulphuric acid so as to re-cycle chlorine for the regeneration of hydrochloric acid for the pre-leach process. The results of this program were released to the ASX on 24 May 2011. Gypsum is produced as a co-product of this process and initial customer assessment of product from this demonstration program indicates it is suitable for commercialisation.

Government approval of the Whyalla Rare Earths Processing Complex development is contingent on a detailed environmental approvals process. This will

include comprehensive social impact and environmental studies and extensive community consultation with the Whyalla community before construction of the complex begins.

On 23 September 2010 the South Australian Minister declared the Rare Earths Processing Complex was a Major Project for Urban Development and Planning processes.

3.4 EIS and Regulatory Considerations

The Nolans Project is subject to the standard Commonwealth, State and Territory regulatory approvals processes, which are concurrent and complementary processes. At the time of this Prospectus, Environmental Impact Statements that will aim to satisfy all regulatory guidelines are being prepared.

The Nolans Bore Mine is located in the Northern Territory and is subject to the Northern Territory and Commonwealth legislative approval processes, whilst the Rare Earths Complex at Whyalla is subject to the similar South Australian and Commonwealth approval processes.

2.4.1 Nolans Bore Mine

A Notice of Intent, pursuant to the *Environmental Assessment Act 1982*, for development of the Nolans Bore Mine was submitted to the Northern Territory Government and Assessment Guidelines were issued in September 2008. These guidelines form the basis of areas of study and content of the EIS. The guidelines remain valid until December 2012.

Arafura has engaged GHD to assist in the preparation of the EIS studies and documentation. GHD were selected as they have substantial experience locally, nationally and internationally in EIS preparation. The scope of the Nolans EIS encompasses Nolans Bore, the transport corridor to and on the Darwin-Adelaide railway line. A significant quantity of the on-site study work is substantially underway whilst other studies and community engagement are on-going. The EIS approval follows the standard process of submission and includes a public display and consultation followed by a supplemental document. The Department of Natural Resources, Environment, The Arts and Sport is the lead development approvals governmental department.

In addition to the formal consultation period (managed by the NT Government following submission of the EIS), Arafura has and will continue to consult widely with the Northern Territory community.

Aboriginal Areas Protection Authority clearance, Northern Territory Government approval and an Agreement for Exploration with the Central Land Council on behalf of the traditional owners are in place for all current on site activities.

2.4.2 Rare Earths Processing Complex – Whyalla, South Australia

The South Australian Government gazetted the Whyalla Rare Earths Complex as a Major Development in September 2010. The development application for the Complex was submitted in February 2011 and the Development Assessment Commission issued the guidelines in June 2011. The assessment guidelines remain valid “for so long as the scope and nature of the Nolans Project remains generally consistent with the original development application”.

Arafura has engaged AECOM to assist in the preparation of the EIS studies and documentation. AECOM were selected as they have substantial experience locally, nationally and internationally in EIS preparation. The scope of this study covers transportation activities (including rail transport from the Northern Territory - South Australian border to the Rare Earths Complex) and the Rare Earths Complex itself. Numerous studies are currently underway and substantial fieldwork surveys are complete.

Arafura has established strong relationships with the key government departments and agencies. The Company has also engaged with stakeholders located in South Australia and maintains a continuous dialogue with groups on a local, regional and state level.

2.4.3 Commonwealth Processes

The Commonwealth Government process runs concurrently with those detailed above and as part of this process Arafura has lodged two separate referrals under the Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act). The Department of Sustainability, Environment, Water, Population and Communities consider these EPBC Act referrals.. Both EPBC applications have been determined to be controlled actions for the Project and as such have ensured that the Assessment Guidelines address the relevant Commonwealth identified issues.

To negate assessment duplication, the Commonwealth Government under bilateral agreements has approved both the Northern Territory and South Australian environmental assessment processes thus creating a coordinated assessment process.

3.5 Engineering Feasibility Study and Technology Programs

The engineering feasibility study for the Nolans Project is in progress and is being managed in four areas:

- Nolans Bore Mine and Beneficiation;
- Logistics;
- Rare Earths Processing Complex; and
- Technology Programs.

2.5.1 Nolans Bore Mine and Beneficiation

Initial resource modelling and beneficiation flow sheets have been analysed through the Nolans Bore Mine plan and Whittle optimisation models.

The interim plan has identified a number of opportunities utilising known beneficiation technologies (refer section 2.2.1). Mining information required for sample generation and testing of these beneficiation processes has been analysed and comprehensive test programs are in progress.

Engineering for the Nolans Bore Mine, including the beneficiation plant has been well advanced by Lycopodium.

2.5.2 Logistics

Transport and Logistics contractors have been approached to express interest to bid on the transport and logistics component of the Nolans Project. This will include transporting mineral concentrates from the Nolans Bore Mine to the Whyalla Rare Earths Processing Complex, delivery and distribution of reagents, spares and consumables to Arafura's sites, delivery of products directly to customers or ports (for shipping to customers) and storage of materials.

2.5.3 Rare Earths Processing Complex

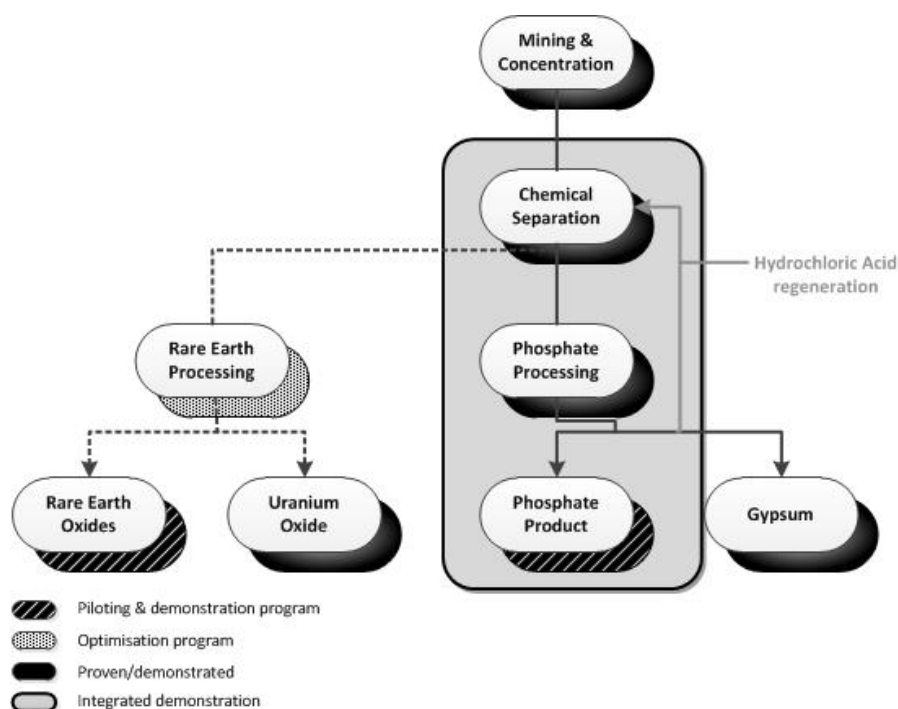
The current engineering for the Rare Earths Processing Complex in Whyalla is based on a 5% rare earths oxide mineral concentrate (beneficiated ore) feed being produced at the Nolans Bore Mine. The engineering will be progressively updated during 2012 as information becomes available from other current and/or planned test programs that may deliver higher-grade mineral concentrate and simplified co-products.

2.5.4 Technology Programs

The key aspects of the technology work streams currently being undertaken or planned are represented in the following and include:

- rare earth oxide purification and separation;
- process simplification and optimisation;
- rare earth sulphation Demonstration Plant; and
- integrated demonstration of the linked processes.

Nolans Bore Advanced Technology Program Processing Flowsheet:



2.5.5 Rare Earth Oxide Purification and Separation

The Company announced on 13 September 2010 and 4 January 2011 the successful production of Rare Earth Oxides at the test facilities at ANSTO.

Arafura has a long-term relationship through many years of development work with ANSTO and this Australian developed technology is undergoing further refinement and improvement.

Work, initially conducted on a laboratory scale, will now be piloted and the pilot plant is under construction. This facility and the associated test work will provide Arafura with detailed engineering design information and produce rare earth oxide products to planned market specifications such that customer quality assessments can commence.

2.5.6 Process Simplification and Optimisation (non-REO)

Additional laboratory work is being conducted on a range of the process operations to further develop, optimise and enhance value and de-risk the Nolans Project. A work stream is underway to define the details of the uranium extraction/phosphate product process, which will simplify the process flowsheet and the product logistics whilst significantly reducing the utilities consumption of the Rare Earths Processing Complex. This also facilitates the opportunity to benefit from enhanced value product manufacture in the future, where justified on a case-by-case assessment of the business opportunity. The uranium oxide production process is based upon widely available technology already employed in the uranium industry.

2.5.7 Rare Earths Sulphation Demonstration Plant

Arafura has undertaken a significant amount of laboratory test work searching for opportunities to encompass a simplified pre-leach and sulphation process. Arafura is currently constructing a Pre-leach and Sulphation Demonstration Plant to enable the results from the laboratory test work to be tested on a larger scale so that this can be included within the process flowsheet with a higher degree of confidence.

It aims to:

- demonstrate technology, materials handling and equipment;
- provide potential investors, analysts and customers opportunities to assess the plant's operational capabilities at scale; and
- provide information to detailed engineering design.

The scale of the Demonstration Plant is such that it will consume in excess of 500 tonnes of ore and the sulphation process will be fed at up to 170kg/hour.

Arafura has engaged Jacobs Engineering and Bateman Engineering to design, procure, manage, and construct the Pre-leach and Sulphation Demonstration Plant utilising facilities of ALS AMMTEC in Perth and ANSTO in Sydney. These facilities will utilise the resource drilled at Nolans Bore Mine during the 2010 Wide Diameter Drilling Campaign ("Big Bertha") as the feedstock. This material is presently being beneficiated in a pilot scale beneficiation circuit at ALS

AMMTEC, and will be used as the feedstock for the pre-leach process. The intermediate Rare Earth bearing process solid will then be transported to ANSTO for processing through the sulphation and subsequent unit operations to produce a Rare Earth Carbonate intermediate product that can subsequently be used to make final rare earth oxide products.

3.6 Other Projects and Tenement Holdings

The table below set out Arafura's other projects and tenement holdings. Arafura intends to maintain the following tenements in good standing.

Project	Title	Holder	Commodity
Mt Porter*	ERL 116, ML 23839	Arafura Resources Ltd	Gold
Frances Creek*	AN 389 ² , EL 10137 ² , EL 22270 ² , EL 23237 ²	Territory Resources Ltd / Frances Creek Pty Ltd	Gold
Kurinelli	AC 74, MCC 950-953	Arafura Resources Ltd	Gold
Aileron-Reynolds	EL 27335, EL 27336, EL 27337, EL 28498, EL 28547, SEL 28473 ⁴	Arafura Resources Ltd	Rare Earth Elements, Phosphate, Uranium
Aileron Basins	EL 24548 ⁵ , EL 24741 ³	NuPower Resources Ltd	Rare Earth Elements, Phosphate, Uranium, Iron
Nolans	ML 26659 ¹	Arafura Rare Earths Pty Ltd	Rare Earth Elements, Phosphate, Uranium
Hammer Hill	EL 9725 ⁴ , EL 10136 ⁴	Arafura Resources Ltd	Rare Earth Elements, Base metals
Jervois	EL 10215 ⁴ , EL 26318, EL 26812	Arafura Resources Ltd	Base metals, Vanadium, Iron
Pamela	EL 25754 ¹	Arafura Resources Ltd	Uranium.

¹Applications lodged with the Department of Resources in the Northern Territory, Australia.

²Arafura gold rights

³Arafura non-uranium rights

⁴NuPower Resources Ltd uranium rights

⁵Arafura non-uranium rights. Ngalia Resources Ltd have the right to earn in and acquire 60% of Arafura's iron ore rights.

*These projects are contracted for sale to Global Mineral Resources Limited (**Global**). The consideration for the sale is A\$1.65 million cash, 7.5 million fully paid ordinary shares in Global (upon Global successfully listing on the ASX), and 7.5 million options exercisable at A\$0.25. On 13 July 2011, Global advised Arafura that its IPO had opened, and that of the 30 million ordinary fully paid shares being offered to the public, 7.5 million shares were to be offered in priority to eligible Arafura shareholders. Arafura has granted Global an extension of time until the end of 2011 in which to satisfy all conditions of sale for an additional consideration of \$100,000. At the date of this Prospectus, all conditions precedent relating to the transaction, with the exception of Global's listing, had been satisfied.

4 Effect of the Rights Issue on Arafura

Principal effect of Rights Issue

If no Vested Options are exercised prior to the Record Date and if all of the Eligible Shareholders take up their Entitlement in full, then the principal effect of the Rights Issue on Arafura will be that:

- (a) cash reserves and contributed equity of Arafura will increase by approximately \$74 million before deducting the expenses of the Rights Issue; and
- (b) the number of Arafura Shares on issue will increase by 122,660,114 from 367,980,342 to 490,640,456.

If 100% of the Vested Options are exercised prior to the Record Date and all Entitlements are taken up, then the principal effect of the Rights Issue on Arafura will be that:

- (c) cash raised would be \$14,722,400 from the exercise of the Vested Options and up to approximately \$2.8 million from the Rights Issue before deducting the expenses of the Rights Issue; and
- (d) the number of Arafura Shares on issue will increase by 141,300,114 (127,320,114 plus 13,980,000) from 367,980,342 to 509,280,456.

	No Vested Options Exercised	All Vested Options Exercised
Existing Shares	367,980,342	367,980,342
Options Exercised	0	13,980,000
Total	367,980,342	381,960,342
Rights Issue	122,660,114	127,320,114
Total	490,640,456	509,280,456

4.2 Impact on capital structure

(a) Undiluted

At the date of this Prospectus, Arafura has 367,980,342 shares on issue.

Assuming no Vested Options are exercised prior to the Record Date and no Shares are issued prior to the Record Date, then if all of the Eligible Shareholders take up their entitlement in full, the New Shares issued pursuant to this Prospectus will be 122,660,114 or approximately 25.0% of the expanded issued capital, and the total Shares on issue after the Rights Issue will be 490,640,456.

(b) Diluted

Arafura has 13,980,000 Vested Options on issue that have not been exercised at the date of this Prospectus, together with 2,500,000 Options that have not vested and intends to issue a further 3,500,000 Options to employees in the near future. None of these are able to be exercised. The details of Options on issue and those intended to be issued are:

Table 4: Options on Issue

Amount	Vested / Not Vested	Expiry	Exercise Price
7,910,000	Vested	31/12/12	\$1.19
3,370,000	Vested	31/12/12	\$0.85
1,200,000	Vested	20/07/13	\$0.75
750,000	Vested	31/08/13	\$0.98
750,000	Vested	14/09/13	\$1.08
	Total Vested 13,980,000		
1,100,000	Not Vested	26/11/13	\$1.54
1,400,000	Not Vested	16/07/14	\$0.96
3,500,000	Not Vested	To be determined on issue	To be determined on issue
	Total Not Vested 6,000,000		

As noted in Section 1, only holders of Vested Options who have exercised their Options and been issued Shares prior to the Record Date are entitled to participate in the Rights Issue.

If 100% of the Vested Options are exercised prior to the Record Date, the number of fully paid ordinary Shares on issue will increase by 13,980,000 from 367,980,342 to 381,960,342 before the Rights Issue. If all Entitlements are taken up, the number of fully paid ordinary Shares on issue will increase by 127,320,114 from 381,960,342 to 509,280,456 after the Rights Issue.

The pro-forma capital structure of Arafura following the Rights Issue on both an undiluted, and fully diluted basis for the 13,980,000 Vested Options, is set out below:

Table 5: Issued Capital Post Rights Issue

Issued Capital	Undiluted	100% Diluted (13,980,000 Vested Options Only)
Existing Shares	367,980,342	381,960,342
New Shares issued pursuant to Rights Issue	122,660,114	127,320,114
Total Shares on Issue following the Rights Issue	490,640,456	509,280,456
Vested Options on issue	13,980,000	-
Unvested Options on issue or to be issued	6,000,000	6,000,000

Impact on Control

As at the date of this Prospectus, the relevant interest of ECE Nolans, a wholly owned subsidiary of the East China Exploration & Development Bureau, in the voting shares of the Company is 17.51%.

As at the date of this Prospectus, ECE Nolans has indicated that it will consider accepting all or part of its Entitlement under the Rights Issue subject to relevant regulatory approvals.

As ECE Nolans may not be able to obtain the necessary approvals in time to take up all or part of its Entitlement under the Rights Issue by the Closing Date, Arafura has offered ECE Nolans the opportunity to maintain its 17.51% shareholding after the completion of the Rights Issue and placement of the Shortfall. Any issue of Shares to ECE Nolans will be subject to the requirements of the Corporations Act and the Listing Rules.

ECE Nolans, being a wholly owned subsidiary of an entity domiciled in the People's Republic of China, may only take up its entitlement under the Rights Issue if it obtains all necessary approvals, including approval from the *Australian Foreign Investment Review Board* (FIRB) and the relevant authorities in the People's Republic of China. If ECE Nolans wishes to accept this Offer it must do so and obtain all necessary approvals, including those required from the FIRB and the relevant authorities in the People's Republic of China, within 60 days after the Closing Date under the Rights Issue.

Assuming there are no Vested Options exercised prior to the record date, possible scenarios are:

- (a) If ECE Nolans obtains the approvals referred to above and takes up all of its entitlement under the Rights Issue and the remaining Arafura shareholders take up all of their Entitlements (or any shortfall is wholly taken up under the Shortfall Facility or otherwise placed), ECE Nolans will maintain a relevant interest in voting shares of Arafura of 17.51%
- (b) Subject to ECE Nolans obtaining the approvals referred to above, if ECE Nolans takes up all of its entitlement under the Rights Issue, no other Arafura Shareholder takes up its entitlement and none of the Shortfall is placed, its relevant interest in voting shares of Arafura would increase to 22.06%.
- (c) If ECE Nolans does not take up any of its entitlement under the Rights Issue but all other Arafura shareholders take up all of their rights (or any Shortfall is wholly taken up under the Shortfall facility or otherwise placed), its relevant interest in voting shares of Arafura will dilute to 13.73%.

If ECE Nolans cannot obtain the approvals referred to above in time to take up all or part of its Entitlement under the Rights Issue by the Closing Date, Arafura has offered to make a placement of Arafura shares to ECE Nolans of such number of Arafura shares as are necessary for ECE Nolans to maintain its 17.51% relevant interest in voting shares of Arafura. Arafura shareholder approval under Section 611 of the Corporations Act will be required for any such issue of shares to ECE Nolans.

Further information about the impact on control is set out in Section 1.6.

Pro-forma Statement of Arafura Financial Position

A pro-forma Statement of Financial Position has been prepared on the basis that there have been no material movements in assets and liabilities of Arafura between 30 June 2011 and the completion of the Rights Issue and assuming no exercise of Options from the date of this Prospectus up to the Record Date, except:

- (a) the Rights Issue of 122,660,114 New Shares at \$0.60 each raises approximately \$74 million; and
- (b) estimated expenses of the Rights Issue of approximately \$0.20 million will be offset against contributed equity.

Table 6: Consolidated Statement of Financial Position (unaudited)

	Audited 30 June 2011 (\$)	Unaudited Pro-forma (\$)
Current assets		
Cash and cash equivalents	70,223,566	143,619,634
Trade and other receivables	1,851,072	1,851,072
Prepayments	749,033	749,033
Total current assets	72,823,671	146,219,739
Non-current assets		
Receivables	2,000,000	2,000,000
Available-for-sale financial assets	739,102	739,102
Property, plant and equipment	498,920	498,920
Deferred exploration and evaluation costs	77,837,834	77,837,834
Total non-current assets	81,075,856	81,075,856
Total assets	153,899,527	227,295,595
Current liabilities		
Borrowings	26,469	26,469
Trade and other payables	11,564,708	11,564,708
Total current liabilities	11,591,177	11,591,177
Non-current liabilities		
Borrowings	25,291	25,291
Trade and other payables	34,977	34,977
Total non-current liabilities	60,268	60,268
Total liabilities	11,651,445	11,651,445
Net assets	142,248,082	215,644,150
Equity		
Contributed equity	176,163,635	249,559,703
Reserves	9,876,486	9,876,486
Accumulated profit (losses)	(43,792,039)	(43,792,039)
Total equity	142,248,082	215,644,150

Notes to pro-forma balance sheet:

- (a) Assumes estimated costs of the Rights Issue of \$0.20 million.
- (b) Assumes no Options (including the 13,980,000 Vested Options) are exercised from the date of this Prospectus up to the Record Date.
- (c) Current assets – Cash and cash equivalents:

	Audited 30 June 2011 (\$)	Unaudited Pro-forma (\$)
Cash and cash equivalent	70,223,566	143,619,634
Proforma adjustments		
Opening Balance (30/06/11)		70,223,566
Proceeds from the Rights Issue		73,596,068
Payments for Rights Issue		(200,000)
		143,619,634

- (d) Contributed equity:

	Audited 30 June 2011	Unaudited Pro-forma
Fully paid ordinary shares	367,980,342	490,640,456

Movements in ordinary share capital:

Date	Details	Number of shares	Issue Price \$	A\$
30 June 2010	Balance	290,640,342		88,662,312
04 November 2010	Placement	43,695,000	1.20	52,434,000
15 December 2010	Placement	31,305,000	1.20	37,566,000
01 July 2010 – 30 June 2011	Employee options exercised	2,340,000	0.85 to 1.31	2,469,400
	Capital Raising Costs			(4,968,077)
30 June 2011	Balance	367,980,342		176,163,635

Pro-forma adjustments for Rights Issue:

				A\$
25 November 2011	Issue of shares pursuant to Prospectus	122,660,114	0.60	73,596,068
25 November 2011	Less: rights issue costs			(200,000)
25 November 2011	Balance	490,640,456		249,559,703

5 Risk Factors

Arafura's activities are subject to a number of risks that may impact future financial performance and the market price at which New Shares trade. Some of these risks can be mitigated by the use of safeguards and appropriate controls. However, others are outside Arafura's control and cannot be mitigated. Therefore, investors who acquire New Shares may be exposed to a number of risks. Broadly, these risks can be classified as risks that generally apply to investing in the share market and risks that are specific to an investment in Shares and Arafura's underlying business.

This Section sets out the identified major risks associated with investing in New Shares. This list is not exhaustive and investors should read this Prospectus in its entirety before making an investment decision. Investors should also have regard to their own investment objectives and financial circumstances and should consider seeking appropriate independent investment advice before deciding whether to invest in the New Shares.

Risks specific to an investment in Arafura

Specific risks relating to Arafura include, but are not limited to the following:

(a) **Nolans project**

(1) Processing risk

Arafura is subject to certain processing risks, including, but not necessarily limited to, the following:

- A Demonstration Plant has been used to develop and demonstrate the metallurgical and chemical processes to convert ore from the Nolans Bore Mine into final products. Scale up and technology risks remain as the company moves to construction and operation on a full commercial scale.
- The Nolans Project may fail to meet expected production levels and product quality requirements.
- Changes in mineralogy in the ore deposit may result in inconsistent metal recoveries, adversely affecting the economic performance of the Nolans Project.

(2) Marketing risk

The Nolans Project requires contracts for the sale of mineral commodities. There is no guarantee that Arafura will secure contracts.

(3) Financial Capital risk

Development of the Nolans Project involves risks associated with the raising of capital, the capital cost of construction and commissioning of a production plant and associated equipment.

(b) Mining, transporting, and processing radioactive materials

Please refer to section 2.3 for details of the regulatory approvals process in which Arafura operates.

The cost of compliance with such laws and regulations may ultimately increase the cost of exploring, drilling, developing, constructing, operating and closing mines and other production facilities. These approvals are more rigorous than for mining of other mineral commodities. There is a risk that the government approvals and licences required to mine and export the deposit may not be granted, or may be significantly delayed or make mining of the deposit uneconomic.

(c) Additional Funding Requirements

The Nolans Project is at a feasibility stage and requires further work prior to the Project development decision. Arafura will use the proceeds of this Offer to fund the programs as stated in section 1.3 Use of Funds.

If less than the full amount of funding that this Offer seeks to raise is raised, then Arafura may be unable to proceed to complete the Nolans Project BFS within the expected timeframe or at all without the need for Arafura to raise additional funding, whether equity funding and/or debt funding. There is no guarantee that additional funding can or will be obtained or that it will be available on favourable terms, within a reasonable timeframe.

If such additional funding is not obtained or cannot be obtained, Arafura may be unable to proceed to complete the Nolans Project BFS within the expected timeframe or at all.

Risks specific to Mining

(a) Exploration and mining risk

Mineral exploration is a high-risk undertaking.

There can be no assurance that mineral exploration will result in the discovery of an economic resource. Even if an apparently viable resource is identified, there is no guarantee that it can be economically exploited.

The business of exploration, project development and mining contains risks and depends on successful exploration and/or acquisition of resources, design and construction of efficient production and processing facilities. In particular, exploration is a speculative endeavour and certain circumstances, cost over-runs and other unforeseen events can hinder mining operations.

(b) **Operational risks**

The operations of Arafura may be disrupted by a variety of risks and hazards that are beyond the control of Arafura, including environmental hazards, industrial accidents, technical failures, regulatory changes, labour disputes, unusual or unexpected rock formations, geotechnical rock failures, flooding and extended interruptions due to inclement or hazardous weather conditions, fire, explosions and other incidents.

(c) **Title and native title**

Interests in tenements in Australia are governed by the respective State and Northern Territory legislation and are evidenced by the granting of licences or leases. Each licence or lease is for a specific term and carries with it annual expenditure and reporting commitments, as well as other conditions requiring compliance. Consequently, Arafura could lose title to, or its interests in, tenements if licence conditions are not met or if insufficient funds are available to meet expenditure commitments.

Both the *Native Title Act 1993* (Cth), related State and Northern Territory Native Title legislation and Aboriginal land rights and Aboriginal heritage legislation might affect Arafura's ability to gain access to prospective exploration areas or obtain production titles.

Compensatory obligations may be necessary in settling Native Title claims if lodged over any tenements acquired by Arafura. The existence of outstanding registered Native Title claims means that the grant of a tenement in respect of a particular tenement application may be delayed or thwarted pending resolution of future act procedures in the Native Title Act. The level of impact of these matters will depend, in part, on the location and status of the tenements acquired by Arafura. At this stage, it is not possible to quantify the impact (if any) that these developments may have on the operations of the Arafura.

(d) **Environmental risk**

Arafura's projects and operations are subject to South Australian, Northern Territory and Commonwealth laws and regulations regarding the environment, including hazards and discharge of hazardous waste and materials and prescribed materials under the *Atomic Energy Act 1953* (Cth). Arafura is committed to conducting its activities in an environmentally responsible manner and in accordance with applicable laws and regulations, but the potential for liability is ever present.

The cost and complexity of complying with the applicable environmental laws and regulations may prevent Arafura from being able to develop potentially economically viable mineral deposits.

(e) **Occupational health and safety risk**

Arafura is committed to providing a healthy and safe environment for its personnel, contractors and visitors. Arafura provides appropriate instructions, equipment, preventative measures, first aid information and training to all stakeholders through its Occupational Health and Safety Management Systems. There is a risk that Arafura's personnel, contractors or visitors may be subject to an industrial accident that adversely impacts Arafura.

(f) **Other factors**

In addition to the risks outlined above, Arafura's operating performance and profitability, and thus an investment in New Shares, is sensitive to a number of other specific factors. These include, but are not limited to:

- the discovery and/or acquisition of commercially recoverable minerals;
- access to adequate capital for project development;
- design and construction of efficient mining and processing facilities within capital expenditure budgets;
- obtaining continued access to processing facilities on favourable terms and conditions;
- the terms and interpretation of current and future contractual arrangements;
- obtaining consents and approvals necessary for the conduct of exploration, mining, production and export;
- favourable weather conditions for exploration and mining activities; and
- access to competent operational management and prudent financial administration, including the availability and reliability of appropriately qualified, skilled and experienced employees, contractors and consultants.

General investment and economic risks

A number of factors that are outside Arafura's control may significantly impact on Arafura, its performance and the price of New Shares. These factors include:

(a) **Investment and Economic Risk**

Economic factors both in Australia and internationally beyond the control of Arafura, such as changes in commodity prices, interest rates, inflation, exchange rates, taxation, changes in government policy and legislation, may negatively impact on the operational performance of Arafura.

Arafura's revenues, expenses and cash flows could be negatively affected by any of these factors, which in turn may affect the price of New Shares.

No assurances can be made that Arafura's performance will not be adversely affected by any such market fluctuations or factors. None of Arafura or its Directors or any other person guarantees the performance of Arafura or the market price at which its shares trade.

The New Shares are to be quoted on ASX where their price may rise or fall.

The New Shares issued under the Rights Issue carry no guarantee in respect of profitability, dividends, return of capital or the price at which they may trade on ASX. The value of the New Shares will be determined by the share market and will be subject to a range of factors beyond the control of Arafura and its Directors, including the demand and availability of Shares.

There can be no guarantee that an active market in New Shares will develop or the market price of the shares will not decline.

(b) **Government policy**

As greater than 15% of the issued share capital in Arafura is controlled by ECE (a foreign government owned entity), Arafura is deemed to be a

“foreign person” under the *Foreign Acquisitions and Takeovers Act 1975* (Cth) and therefore must comply with Australia’s Foreign Investment Review Board’s requirements.

Further to this, Arafura’s capacity to explore and mine, as well as industry profitability generally, can be affected by changes in government policy that may be beyond the control of Arafura.

(c) **Product price risk**

The demand for and price of commodities is highly dependent on a variety of factors, including, the level of forward selling by producers, costs of production, general economic conditions, inflation levels, interest rates and exchange rates.

These factors may adversely impact on Arafura’s ability to fund operations, exploration, and evaluation and development activities.

(d) **Future capital needs and additional funding**

The future capital requirements of Arafura will depend on many factors, including the condition of global financial markets. There can be no guarantee that Arafura will be able to raise additional capital or debt finance to meet future funding requirements.

Any inability to obtain any required additional finance would have a material adverse effect on Arafura’s business and its financial condition and performance.

(e) **Taxation risk**

Variations in the taxation laws of Australia could impact Arafura’s financial performance and interpretation of taxation law could change, leading to a change in taxation treatment of investments or activities.

(f) **Changes in regulatory environment**

Changes to laws and regulations or accounting standards that apply to Arafura from time to time could adversely impact the operating and financial performance and cash flows of Arafura.

6 Additional Information relating to Arafura

Rights and liabilities attaching to Arafura Shares

The New Shares issued under this Prospectus will be fully paid ordinary shares in the capital of Arafura and will rank equally with the Shares. The rights and liabilities attaching to Arafura Shares are:

- set out in the Arafura Constitution; and
- in certain circumstances, regulated by the Corporations Act, the ASX Listing Rules, the ACH Clearing Rules, the ASTC Settlement Rules and the common law.

A summary of the principal rights and liabilities attaching to Shares is set out below. This summary does not purport to be exhaustive or to constitute a definitive statement of the rights and liabilities of Shareholders. For a Shareholder to obtain a definitive assessment of the rights and liabilities, which attach to Shares in any specific circumstances, that Shareholder should seek independent legal advice.

(a) **Voting**

At a general meeting, on a show of hands every shareholder present in person or by proxy, attorney or representative, has one vote. At the taking of a poll, every shareholder present whose shares are fully paid has one vote for each of his or her shares. On a poll, the holder of a partly paid share has a fraction of a vote with respect to the share. The fraction is equivalent to the proportion that the amount paid (not credited) bears to the total amount paid and payable (excluding amounts credited).

(b) **General meetings**

Each shareholder is entitled to receive notice of, attend and vote at general meetings of Arafura and to receive all notices, financial statements and other documents required to be sent to ordinary shareholders under the Constitution, the Corporations Act and the ASX Listing Rules.

(c) **Dividends**

Arafura may pay to shareholders any interim and final dividends as, in the Directors' judgement, the financial position of Arafura justifies. The Directors may fix the amount and the method of payment and, subject to the ASTC Settlement Rules, the record date for determining eligibility. All dividends must be paid to the shareholders in proportion to the number of shares held, except that a partly paid share confers an entitlement only to the proportion of the dividend which the amount paid (not credited) on the share is of the total amounts paid and payable (excluding amounts credited).

(d) **Transfer of shares**

Generally, all shares in Arafura are freely transferable subject to the procedural requirements of the Constitution and to the provisions of the Corporations Act, the ASX Listing Rules and the ASTC Settlement Rules. The Directors may decline to register an instrument of transfer received in circumstances including where the transfer is not in registrable form or where refusal is permitted under the ASX Listing Rules or the ASTC Settlement Rules. If the Directors decline to register a transfer, Arafura must give reasons for the refusal. The Directors must decline to register a transfer when required by the Corporations Act, the ASX Listing Rules or the ASTC Settlement Rules.

(e) **Variation of rights**

Arafura may only modify or vary the rights attaching to any class of shares, unless their terms of issue state otherwise, with the prior approval by a special resolution of the holders of shares in that class at a meeting of those holders, or with the written consent of the holders of at least 75% of the issued shares of that class.

(f) **Directors**

The minimum number of Directors is three and the maximum is ten unless an Arafura general meeting determines otherwise. Directors must retire on a rotational basis. If the number of directors, excluding the managing director, is more than five, one-third of Directors must retire at each annual general meeting. A Director, other than the managing director, who has been in office for three or more years, must also retire. A retiring Director is eligible for re-election. The Directors may appoint a Director either in addition to existing Directors or to fill a casual vacancy, who then holds office until the next annual general meeting.

(g) Decisions of Directors

Questions arising at a meeting of Directors are decided by a majority of votes. If the votes are equal on a proposed resolution, the Chairperson has a casting vote in addition to his or her deliberative vote unless there are only two directors present or entitled to vote at the meeting, in which case the Chairman does not have a casting vote.

(h) Issue of further shares

Subject to the Arafura Constitution, the Corporations Act and the ASX Listing Rules, the Directors may issue, or grant options in respect of, shares to such persons on such terms as they think fit. In particular, the Directors may issue preference shares, including redeemable preference shares, and may issue shares with preferred, deferred or special rights or restrictions in relation to dividends, voting, and return of capital or otherwise.

(i) Officers' indemnity

To the full extent permitted by the law, Arafura must indemnify each officer of Arafura against any losses or liabilities incurred by the person as an officer of Arafura or a related body corporate of Arafura, including costs and expenses incurred in defending proceedings in which judgment is given in favour of the person or in which the person is acquitted or in connection with relief granted to the person in an application under the Corporations Act in respect to such proceedings.

(j) Alteration to the Arafura Constitution

The Arafura Constitution can only be amended by a special resolution passed by at least 75% of ordinary shareholders present and voting at a general meeting. At least 28 days' notice of the intention to propose the special resolution must be given.

Related party transactions

Other than as disclosed elsewhere in this Prospectus, Arafura is not a party to any agreement that would be considered a related party transaction.

Litigation and material disputes

As at the date of this Prospectus, Arafura is not involved in any material legal or administrative proceedings and the Directors are not aware of any claim or threatened claim against Arafura that may result in material legal proceedings.

Native Title claims have been formally lodged in respect of areas that include tenements and applications for tenements controlled by Arafura. These claims will be the subject of determination by the Native Title Tribunal. Arafura has begun negotiations with the Native Title claimants and the Central Land Council for the Nolans Bore Mine area under the 'Right to Negotiate' provisions of the Native Title Act. Arafura is seeking to negotiate a formal mining agreement ahead of seeking a formal determination.

Interests of Arafura Directors and promoters

Other than as set out below or elsewhere in this Prospectus, no Director or promoter of Arafura (or entity in which they are a partner or director) has, or has had in the two years before the date of this Prospectus, any interest in:

- the formation or promotion of Arafura;

- property acquired or proposed to be acquired by Arafura in connection with its formation or promotion of the Rights Issue; or
- the Rights Issue; and

other than as set out below or elsewhere in this Prospectus, no amounts have been paid or agreed to be paid and no value or other benefit has been given or agreed to be given to:

- any Director of Arafura to induce that Director to become or to qualify as a director of Arafura; or
- any Director or promoter of Arafura (or entity in which they are a partner or director) for services that he or she has provided in connection with the formation or promotion of Arafura or the Rights Issue.

The Directors and their related entities have the following interests in the Shares and the Options as at the date of this Prospectus.

Directors' interests include interests they have in Shares registered in the name of other persons. Option terms have previously been disclosed to ASX. Directors holding Shares will be entitled to participate in the Offer on the same basis as other Eligible Shareholders.

Table 7: Directors' Interests

Director	Shares Held Directly or Indirectly	Options Held Directly or Indirectly
Ian Laurance	120,000	2,000,000
Ian Kowalick	550,000	1,500,000
Stephen Ward	145,000	1,500,000
Irvin (Mick) Graham Muir	2,997,001	Nil
Terry Jackson	5,256,535	1,500,000
Chris Tonkin	Nil	Nil
Shasha Lu	Nil	500,000
Alex Losada-Calderon	Nil	1,100,000
Lloyd Jones	Nil	Nil
Loretta Reynolds	Nil	Nil

Directors Stephen Ward, Ian Laurance and Terry Jackson each own or control shares in the Company and they have stated that their intention is to take up their Entitlement in full.

Privacy notification

By filling out the Entitlement and Acceptance Form to apply for New Shares, you are providing personal information to Arafura.

The *Privacy Act* 1988 (Cth) regulates the way Arafura collects, uses, disposes, keeps secure and gives people access to their personal information.

Arafura collects, holds and uses that personal information in order to process your application and to administer your shareholding in Arafura, including:

- setting up and maintaining a register of shareholders in accordance with the Corporations Act;

- paying dividends to you should Arafura at a later date declare a dividend;
- communicating with Shareholders, including sending annual reports, notices of meetings and any other documents that Arafura wishes to send to you as a Shareholder;
- carrying out general administration including monitoring, auditing, evaluation, modelling data, dealing with complaints and answering queries; and
- complying with its legal and regulatory obligations.

If you do not provide the information requested in the Entitlement and Acceptance Form, Arafura may not be able to process or accept your application for New Shares.

Your personal information may be provided to Arafura's agents or service providers.

The types of agents and service providers that may be provided with your personal information include:

- the Share Registry for ongoing administration of the share register;
- printers and mail houses for the purposes of preparation and distribution of documents to you and for handling mail; and
- professional service providers such as lawyers, accountants, auditors and other professional advisers for the purpose of administering, and advising on, the New Shares and for any associated actions.

Your personal information may be provided to certain third parties. The types of third parties that may be provided with your personal information, and the circumstances in which your personal information may be disclosed, include:

- your financial adviser or broker (other than your tax file number information) in connection with services provided to you by your adviser or broker;
- government, regulatory authorities or other people when permitted or required by law, such as ASIC or people inspecting the Share register in accordance with the Corporations Act;
- the ASX; and
- in certain circumstances and with safeguards to respect your privacy, potential or actual purchasers of an interest in Arafura or Arafura's business or any part thereof.

You have the right to gain access to your personal information held by, or on behalf of, Arafura, subject to certain exemptions under the law. You may be required to pay a reasonable charge in order to access your personal information. You can request access to your personal information by telephoning or writing to the Company Secretary as follows:

Arafura Resources Limited
 Company Secretary
 PO Box 5733
 St Georges Terrace
 Perth WA 6831
 Tel: (61-8) 6210 7666
 Fax: (61-8) 9221 7966

Taxation Implications

Arafura recommends that Eligible Shareholders obtain their own independent taxation advice regarding the possible taxation implications of the Rights Issue.

Foreign Ownership Implications

As greater than 15% of the issued share capital in Arafura is controlled by ECE (a foreign government owned entity), Arafura is deemed to be a “foreign person” under the *Foreign Acquisitions and Takeovers Act 1975* (Cth).

Foreign investors wishing to acquire a direct or indirect interest in Arafura shares should satisfy themselves as to compliance with applicable laws.

7 General Additional Information

Interests of advisers

Other than as set out below or elsewhere in this Prospectus, all persons named in this Prospectus as having performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus, do not have, and have not had in the two years before the date of this Prospectus, any interests in:

- the formation or promotion of Arafura;
- property acquired or proposed to be acquired by Arafura in connection with its formation or promotion or the Rights Issue; or
- the Rights Issue,

and, other than as set out below or elsewhere in this Prospectus, no amounts have been paid or agreed to be paid and no other benefit has been given or agreed to be given to any persons named in this Prospectus as having performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus, in connection with the formation or promotion of Arafura or the Rights Issue.

Johnson Winter & Slattery has acted as Australian legal adviser to Arafura in relation to the Rights Issue. Their fees for this work up to the date of lodgement of this Prospectus will be approximately \$40,000. Johnson Winter & Slattery receives further fees for additional work done determined on the basis of hours spent at its ordinary hourly rates.

7.2 Consents to statements in the Prospectus and consents to be named

BDO has given and, at the time of lodging this Prospectus with ASIC, has not withdrawn, its written consent to be named in this Prospectus as the Company’s Auditors in the form and context in which it is named.

BDO is the Company’s Auditor and it has given and, at the time of lodging this Prospectus with ASIC, has not withdrawn, its written consent to the reference in Section 3.4 of this Prospectus to the 30 June 2011 financial position as being “audited”, in the form and context in which it appears.

Johnson Winter & Slattery has given and, at the time of lodging this Prospectus with ASIC, has not withdrawn, its written consent to be named in this Prospectus as Australian legal adviser to Arafura in relation to the Rights Issue in the form and context in which it is named.

Security Transfer Registrars Pty Ltd has given and, at the time of lodging of this Prospectus with ASIC, has not withdrawn, its consent to be named in this Prospectus as Share Registry for Arafura in the form and context in which it is named.

Each of BDO, Johnson Winter & Slattery and Security Transfer Registrars Pty Ltd jointly and severally:

- do not make the Offer;
- have not authorised or caused the issue of this Prospectus;
- do not make or purport to make, any statement in this Prospectus, or any statement in which a statement in this Prospectus is based, other than as specified above; and
- to the maximum extent permitted by law, expressly disclaim and take no responsibility for any part of this Prospectus other than the reference to their name or as otherwise specified above.

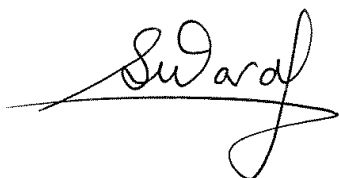
7.3 Competent Persons Statement

The information in Section 2.3.1 that relates to Mineral Resources for the Nolans Bore deposit was compiled by Mr John Goulevitch, BSc (Hons), MSc, of Exploremin Pty Ltd. Mr. Goulevitch is a Fellow of The Australian Institute of Geoscientists and has the necessary professional qualifications and sufficient experience relevant to this style of mineralisation to qualify as a Competent Person as defined in the *Australasian Code for Reporting of Mineral Resources and Ore Reserves* (JORC Code) for reporting Mineral Resources. Mr. Goulevitch is employed by Exploremin Pty Ltd and he acts as a Consulting Geologist to Arafura Resources Limited. He consents to the inclusion of Section 2.3.1 of the technical information in the form and context in which it appears. An entity associated with Mr. Goulevitch is a shareholder in Arafura Resources Limited.

8 Authorisation

Each Arafura Director has consented to the lodgement of this Prospectus with ASIC and has not withdrawn that consent.

This Prospectus is signed for and on behalf of Arafura by:

A handwritten signature in black ink, appearing to read 'S. Ward', with a stylized flourish extending from the bottom.

**Dr Stephen Ward
Managing Director & CEO
Arafura Resources Limited**

9 Defined Terms and Interpretation

Defined Terms

In this Prospectus and in the Entitlement and Acceptance Form, unless the context otherwise requires, the following terms have the meanings listed:

A\$ or \$	Australian dollars.
Additional Shares	Those New Shares forming part of the Shortfall for which Eligible Shareholders may apply for under the Shortfall Offer.
Administration	Expenditure required on Arafura's existing tenements in order to maintain its leases.
ANSTO	Australian Nuclear Science & Technology Organisation.
Application Monies	The monies received from persons applying for New Shares pursuant to the terms of the Rights Issue.
Arafura or the Company	Arafura Resources Limited ABN 22 080 933 455.
Arafura Constitution	The constitution of Arafura.
Arafura Options	The right to subscribe for Arafura Shares.
ASIC	Australian Securities & Investments Commission.
Associate	Has the meaning given to that term in the Corporations Act.
ASTC Settlement Rules	The Settlement Rules for the ASX Settlement & Transfer Corporation Pty Ltd ABN 49 008 504 532.
ASX	ASX Limited ABN 98 008 624 691 or the Australian Securities Exchange operated by it (as the context requires).
Board	Board of Directors of Arafura at the date of this Prospectus.
BDO	BDO Audit (WA) Pty Ltd
BFS	Bankable Feasibility Study
Business Day	Has the meaning given to that term in the Listing Rules.
CHESS	Has the meaning attributed to that term in the ASTC Settlement Rules.
Closing Date	5.00pm Perth time on 22 November 2011, or such later date as the Directors, in their absolute discretion and subject to

	compliance with the Listing Rules, may determine.
Corporations Act	<i>Corporations Act 2001 (Cth).</i>
Directors	The directors referred to in the Arafura Corporate Directory.
ECE	East China Exploration & Development Bureau, the ultimate parent entity of ECE Nolans
ECE Nolans	ECE Nolans Investment Co Pty Limited, a registered holder of Arafura Shares.
Eligible Shareholder	A registered holder of Arafura Shares on the Record Date whose registered address is in Australia or in New Zealand.
Entitlement	An Arafura Shareholder's entitlement under the Rights Issue to subscribe for New Shares.
Entitlement and Acceptance Form	The entitlement and acceptance form accompanying this Prospectus.
Ineligible Foreign Shareholder	An Arafura Shareholder on the Record Date who is not an Eligible Shareholder.
Listing Rules	The listing rules of the ASX.
New Share	A Share that is issued under the Rights Issue.
Nolans Bore Mine	Area of 1404ha comprising Mineral Lease Application MLA 26659 lodged with the Northern Territory Government
Nolans Project	Comprises the proposed Nolan Bore Mine and the proposed Rare Earths Processing Complex at Whyalla, South Australia.
Offer	The offer to Eligible Shareholders to subscribe for New Shares under the Rights Issue.
Prospectus	This prospectus, as supplemented from time to time,
Rare Earths Processing Complex	The proposed minerals processing facility to be constructed in Whyalla South Australia.
Record Date	5.00pm Perth time on 27 October 2011.
Rights	The right to subscribe for New Shares under this Prospectus.
Rights Issue	A pro rata non-renounceable offer to the Eligible Shareholders to subscribe for 1 New Share at the price of \$0.60 per New Share for every 3 Shares held at the Record

	Date.
Section	A section of this Prospectus.
Share	A fully paid, ordinary share issued in the share capital of Arafura.
Share Registry	Security Transfer Registrars Pty Ltd ABN 95 008 894 488.
Shortfall	Those New Shares offered under the Rights Issue but not applied for by Eligible Shareholders under their Entitlement.
Shortfall Offer	The offer to Eligible Shareholders for Additional Shares described in Section 1.6.
Vested Options	The 13,980,000 Options listed in Table 4 that are shown in that table as vested.
WA	Western Australia.
Whittle	Mine to market optimisation software.

Interpretation

In this Prospectus and in the Entitlement and Acceptance Form, unless the context otherwise requires:

- (a) words and phrases have the same meaning (if any) given to them in the Corporations Act;
- (b) words importing a gender include any gender;
- (c) words importing the singular include the plural and vice versa;
- (d) an expression importing a natural person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;
- (e) a reference to a section is a reference to a section of this Prospectus;
- (f) a reference to a statute, regulation, proclamation, ordinance or by-law includes all statutes, regulations, proclamations, ordinances or by-laws amending, consolidating or replacing it, whether passed by the same or another government agency with legal power to do so, and a reference to a statute includes all regulations, proclamations, ordinances and by-laws issued under that statute;
- (g) headings and boldings are for convenience only and do not affect the interpretation in this Prospectus;
- (h) a reference to time, unless otherwise stated, is a reference to Perth time;
- (i) a reference to writing includes email and facsimile transmissions.

Arafura Corporate Directory

Directors

Ian Laurance

Chairman

Stephen Ward

Managing Director & CEO

Mick Muir

Non-Executive Director

Ian Kowalick

Non-Executive Director (Deputy Chairman)

Terry Jackson

Non-Executive Director

Chris Tonkin

Non-Executive Director

Shasha Lu

Executive Director

Alex Losada-Calderon

Non-Executive Director

Lloyd Jones

Non-Executive Director

Loretta Reynolds

Non-Executive Director

Company Secretary

Gavin Lockyer

Registered and Principal Office

Level 5

16 St Georges Terrace

Perth WA 6000

Telephone: (61-8) 6210 7666

Facsimile: (61-8) 9221 7966

Website

<http://www.arafuraresources.com.au>

This Prospectus and detailed public information regarding Arafura is available on the above website.

Share Registry

Security Transfer Registrars Pty Ltd

770 Canning Highway

Applecross WA 6153

Telephone: (61-8) 9315 2333

Facsimile: (61-8) 9315 2233

Stock Exchange

Arafura is listed on the Australian Securities Exchange.

Arafura's shares are quoted for trading on the Australian

Securities Exchange.

The home exchange is the Australian Securities Exchange (Perth).

ASX Code

ARU

Australian Legal Adviser

Johnson Winter & Slattery
Level 4 Westralia Plaza,
167 St Georges Terrace
Perth WA 6000

Auditors

BDO Audit (WA) Pty Ltd
38 Station Street
Subiaco WA 6008