20 October 2011

Dear Shareholder

RE: NON-RENOUCABLE RIGHTS ISSUE FOR SHARES

Arafura Resources Limited (Arafura) is pleased to offer you an opportunity to acquire New Shares in the company pursuant to a pro-rata non-renounceable Rights Issue intended to raise approximately $74 million.

The Rights Issue Record Date to determine Entitlements is 27th October 2011. Eligible Shareholders will be entitled to 1 New Share for every 3 Shares held at an issue price of $0.60 per New Share.

The Rights Issue closes at 5:00pm Perth time on Tuesday 22 November 2011.

A Prospectus for the Rights Issue was lodged with the Australian Securities and Investments Commission (ASIC) and the Australian Securities Exchange Limited (ASX) on the 18th October 2011. A copy of the Prospectus along with the Entitlement and Acceptance Form will be despatched to Eligible Shareholders on or before 2 November 2011. Full details of the rights issue are set out in the Prospectus. If you wish to participate in the Rights Issue you will need to complete the Entitlement and Acceptance form that will accompany the Prospectus.

Purpose of the Issue

The Rights Issue 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.

Overview of Key Terms

- 1 New Share for every 3 Shares held in Arafura at the Record Date.
- New Shares will have an issue price of $0.60 per share and will rank equally with existing Shares in Arafura.
- 122,660,114 New Shares will be offered under the Rights Issue (Assuming no existing options are exercised prior to the Record Date).
- The Rights Issue will raise approximately $74 million before the payment of the costs of the issue.

Summary of Key Dates

- “Ex” date; shares now trade without attached right to participate in the Rights Issue 21 October 2011.
- Record date for determining entitlements to New Shares 27 October 2011.

ARAFURA RESOURCES LIMITED

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- Prospectus and Entitlement and Acceptance Forms dispatched 2 November 2011.
- Closing date for acceptances 22 November 2011.

This Prospectus is available in electronic form on the ASX website at www.asx.com.au or the Company's website at www.arafuraresources.com.au

The timetable for the Rights Issue is as follows:

Event	Date
Announcement of Arafura Rights Issue	18 October 2011
Notice of Rights Issue sent to eligible shareholders	20 October 2011
Shares trade "ex-rights" and Rights trading commences on ASX	21 October 2011
Record Date to determine Entitlements under the Rights Issue	27 October 2011
Prospectus, Entitlement and Acceptance Form despatched	2 November 2011
Closing Date for acceptances	22 November 2011
Notification to ASX of under subscriptions	25 November 2011
Allotment and issue of New Shares	25 November 2011
Dispatch of shareholding statements for New Shares	25 November 2011
Normal trading T+3 for New Shares commences	28 November 2011

Note: The snapshot date to determine the 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.

Pursuant to the Listing Rules, the Company is required to provide to you certain information required by Appendix 3B of the Listing Rules.

(1) Up to maximum of 122,660,114 shares will be issued pursuant to the Rights Issue (assuming no exiting vested options are exercised prior to the record date).

(2) The shares rank equally in all respects form the date of allotment with the existing class of quoted Shares.

(3) The issue price of the Shares will be $0.60 each.

(4) The Company will apply for quotation of the Shares issued pursuant to the Rights Issue on the official list of the ASX.

(5) The funds raised by the Rights Issues, less the expenses of the Rights Issue will be used for 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.

(6) It is expected the securities will be entered into uncertified holdings or dispatch certificates on 25 November 2011.

(7) The total number and class of all securities quoted on the ASX (including the maximum number of Shares to be issued in the Rights Issues on an undiluted basis – i.e. assuming that none of the Company's options are exercised prior to the record date) is as follows:

Number	Class
490,640,456	Fully paid ordinary shares

(8) The following are the securities of the Company not quoted on the ASX.

Number	Class
1,420,000	Options at an exercise price of $1.19 expiring 31/12/2012
6,500,000	Options at an exercise price of $1.19 expiring 31/12/2012
3,370,000	Options at an exercise price of $0.85 expiring 31/12/2013
1,200,000	Options at an exercise price of $0.75 expiring 20/07/2013
750,000	Options at an exercise price of $0.98 expiring 31/08/2013
750,000	Options at an exercise price of $1.08 expiring 14/09/2013.
1,100,000	Options at an exercise price of $1.54 expiring 26/11/2013
1,400,000	Options at an exercise price of $0.96 expiring 16/11/2013

(9) The Company currently has no dividend policy.

(10) No shareholder approval for the Rights Issue is required.

(11) The Rights Issue is non renounceable.

(12) The shares in the Rights Issue will be offered on the basis of one (1) New Share for every three (3) shares held at 5.00pm WST on 27 October 2011.

(13) The offer under the Rights Issue relates to fully paid ordinary shares in the capital of the Company.

(14) The record date to determine entitlements is 27 October 2011.

(15) Fractions will be rounded to the nearest whole dollar.

(16) The closing date for receipt of acceptance is 5.00pm WST 22 November 2011.

(17) The Rights Issue is not underwritten.

(18) There is no broker to the Rights Issue.

(19) The Prospectus for the Rights Issue and the accompanying Entitlement and Acceptance Form will be sent to shareholders on 2 November 2011.

(20) Existing option holders may participate in the Rights Issue upon exercise of their options (provided they have vested).

(21) The latest date dispatch of certificates or entry of the securities into your security holding is 25 November 2011.

The above information was provided to the ASX on 18 October 2011.

For further information on your entitlement please contact your stockbroker or Arafura's share registry – Security Transfer Registrars Pty Ltd;
Telephone: + 61 8 9315 2333
Facsimile: + 61 8 9315 2233

For and on behalf of
ARAFURA RESOURCES LIMITED
Yours sincerely

Gavin Lockyer

Company Secretary