AN EMERGING RARE EARTHS PRODUCER
FOR USERS WORLDWIDE

14 May 2012
Ms Fiona Murphy
Advisor, Listings (Perth)
ASX Compliance Limited
Level 8, Exchange Plaza
2 The Esplanade
Perth WA 6000

RE: Response to ASX Price & Volume Query

Dear Fiona,

Thank you for your telephone call and subsequent letter dated 11 May 2012.

Arafura is currently engaged in preparation of an advanced feasibility study on the Nolans Project for the extraction of Rare Earths and the production of separated Rare Earth Oxides. Customer assessment of these 99% purity products is currently being undertaken for commerciality. This has been stated in Company releases to the ASX.

Arafura is also in discussions with a range of organisations looking to invest in the Company as well as a number of European and Asian organisations with the intention to find suitable strategic partners for the Nolans Project for the production, distribution and sale of rare earth products into relevant markets. **The Company has clearly stated in ASX market releases that it is our intention to secure investors and a joint venture partner for the Nolans project.** Discussions are in varying stages and no contractual arrangements have yet been negotiated.

As part of a strategic position in rare earth resources and production, the company is also investigating a number of potential alternate sources of rare earth material. These development activities and potential growth opportunities result in raising the profile of the Company and drawing attention to our assets and investment value.

There has been recent increased attention within the USA, European and Asian markets to the strategic importance of rare earths in technologies that have a significant impact in greenhouse gas abatement strategies and high growth electronics markets. This has resulted in an increased focus on the need for additional rare earths resources into the supply chain and Arafura is one of the few companies with the opportunity to develop and produce rare earths in the near term.

Further to your letter today and our subsequent telephone conversation we respond as follows:

1. The Company is not aware of any information that has not been announced which could be an explanation for recent trading in the securities of the Company.
2. The answer to question 1 is "No", therefore question 2 is "Not Applicable"
3. There have been a number of recent influences on commodity prices for rare earths. The Chinese Government continues to apply tariffs and restrict export quotas on rare earth material being utilised by non-Chinese organisations. China currently supplies approximately 97% of world demand for these elements. Other than the above the Company has no other explanation for the price change and increase in volume of securities.
4. The Company confirms that it is in compliance with the Listing Rules and in particular Listing Rule 3.1

Should you require further information, please contact me.

Yours sincerely

[sent electronically without signature]
Gavin Lockyer
Company Secretary
Arafura Resources Limited.

ARAFURA RESOURCES LIMITED

arafura@arafuraresources.com.au www.arafuraresources.com.au ABN 22 080 933 455

PERTH: Level 5/16 St Georges Terrace, Perth WA 6000 | PO Box 5773, St Georges Terrace, Perth WA 6831 T: +618 6210 7666 F: +618 9221 7966
DARWIN: 18 Menmuir Street, Winnellie NT 0820 | PO Box 37220, Winnellie NT 0821 T: +618 8947 5588 F: +618 8947 5599
WHYALLA: Unit 18, 11 Darling Terrace, Whyalla SA 5600 | PO Box 511, Whyalla SA 5600 T: +618 8645 5509 F:+618 8645 1856

ASX Compliance Pty Limited
ABN 26 087 780 489
Level 8 Exchange Plaza
2 The Esplanade
PERTH WA 6000

GPO Box D187
PERTH WA 6840

Telephone 61 8 9224 0000
Facsimile 61 8 9221 2020
www.asx.com.au

11 May 2012

Mr Gavin Lockyer
Company Secretary
Arafura Resources Limited
Level 5, 16 St Georges Terrace
Perth, WA 6000

By email: *gavin.lockyer@arafuraresources.com.au*

Dear Mr Lockyer

Arafura Resources Limited (the "Company")

PRICE AND VOLUME QUERY

We have noted a change in the price of the Company's securities from a closing price of $0.25 on 10 May 2012 to a closing price of $0.285 today. We have also noted an increase in the volume of trading in the securities of the Company.

In light of the price and volume change, please respond to each of the following questions.

1. Is the Company aware of any information concerning it that has not been announced which, if known, could be an explanation for recent trading in the securities of the Company?

   Please note that as recent trading in the Company's securities could indicate that information has ceased to be confidential, the Company is unable to rely on the exceptions to listing rule 3.1 contained in listing rule 3.1A when answering this question.

2. If the answer to question 1 is yes, can an announcement be made immediately? If not, why not and when is it expected that an announcement will be made?

   Please note, if the answer to question 1 is yes and an announcement cannot be made immediately, you need to contact us to discuss this and you need to consider a trading halt (see below).

3. Is there any other explanation that the Company may have for the price and/or volume change in the securities of the Company?

4. Please confirm that the Company is in compliance with the listing rules and, in particular, listing rule 3.1.

Your response should be sent to me by email to fiona.murphy@asx.com.au or on **facsimile number (08) 9221 2020.** It should <u>not</u> be sent to the ASX Market Announcements Office.

Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event, **not later than 7.00 am (W.S.T.) Monday, 14 May 2012.**

Under listing rule 18.7A, a copy of this query and your response will be released to the market, so your response should be in a suitable form and separately address each of the questions asked. If you have any queries or concerns, please contact me immediately.

Listing rule 3.1

Listing rule 3.1 requires an entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. The exceptions to this requirement are set out in listing rule 3.1A.

In responding to this letter you should consult listing rule 3.1 and Guidance Note 8 – Continuous Disclosure: listing rule 3.1.

If the information requested by this letter is information required to be given to ASX under listing rule 3.1 your obligation is to disclose the information immediately.

Your responsibility under listing rule 3.1 is not confined to, or necessarily satisfied by, answering the questions set out in this letter.

Trading halt

If you are unable to respond by the time requested, or if the answer to question 1 is yes and an announcement cannot be made immediately, you should consider a request for a trading halt in the Company's securities. As set out in listing rule 17.1 and Guidance Note 16 – Trading Halts, we may grant a trading halt at your request. We may require the request to be in writing. We are not required to act on your request. You must tell us each of the following:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted. If a trading halt is requested and granted and you are still unable to reply to this letter before the commencement of trading, suspension from quotation would normally be imposed by us from the commencement of trading if not previously requested by you. The same applies if you have requested a trading halt because you are unable to release information to the market, and are still unable to do so before the commencement of trading.

If you have any queries regarding any of the above, please do not hesitate to contact me.

Yours sincerely

[sent electronically without signature]

Fiona Murphy
Adviser, Listings (Perth)