

**ARAFURA PEARLS HOLDINGS LIMITED**  
**ABN 88 092 266 067**

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**ENTITLEMENT ISSUE PROSPECTUS**

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For a non-renounceable entitlement issue of two (2) New Shares and one (1) New Option for every three Shares held by Shareholders registered at 5.00pm (WST) on 6 October 2010 at an issue price of one and a half (1.5) cents per Share to raise up to approximately \$5,882,700 (**Entitlement Issue**).

The Offer has been fully underwritten to approximately 58% for the amount of \$3,400,000.

**IMPORTANT NOTICE**

This document is important and should be read in its entirety. If after reading this Prospectus you have any questions about the securities being offered under this Prospectus or any other matter, then you should consult your stockbroker, accountant or other professional adviser.

The securities offered by this Prospectus should be considered as speculative.

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**1. CORPORATE DIRECTORY**

<p><b>Directors</b></p> <p>Mr James Taylor (Executive Chairman) Mr Andrew Hewitt (Chief Executive Officer) Mr Mark Ceglinski Non Exec. Director) Mr Jeffrey Mews (Non Exec. Director)</p> <p><b>Company Secretary</b></p> <p>Ms Annabelle Bechta</p> <p><b>Registered Office</b></p> <p>Suite 25, Level 3 22 Railway Road Subiaco WA 6008</p> <p>Telephone (08) 9382 4818 Facsimile (08) 9388 6456</p>	<p><b>Share Registry*</b></p> <p>Security Transfer Registrars Pty Ltd* 770 Canning Highway Applecross WA 6153</p> <p>PO Box 535 Applecross WA 6953</p> <p>Telephone: (08) 9315 2333 Facsimile: (08) 9315 2233</p> <p><b>Corporate Advisor*</b></p> <p>Pursuit Capital* Suite 10, 38 Colin Street West Perth WA 6005</p> <p>(08) 6267 9030</p>
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\* This party is included for information purposes only. It has not been involved in the preparation of this Prospectus.

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## 2. SUMMARY OF IMPORTANT DATES AND IMPORTANT NOTES

### TIMETABLE AND IMPORTANT DATES

Lodgement of Prospectus with ASIC and ASX	24 September 2010
Lodgement of Appendix 3B with ASX	27 September 2010
Notices sent to Shareholders and Optionholders	29 September 2010
Ex Date	30 September 2010
Record Date for determining entitlements to New Shares	6 October 2010
Prospectus despatched to Shareholders	12 October 2010
Closing Date of Offer	26 October 2010
Notification to ASX of under subscriptions	29 October 2010
Despatch of holding statements	3 November 2010

\* The Directors may extend the Closing Date by giving at least 6 business days notice to ASX prior to the Closing Date. As such the date the New Shares are expected to commence trading on ASX may vary.

### IMPORTANT NOTES

Shareholders should read this document in its entirety and, if in doubt, should consult their professional advisors.

This Prospectus is dated 24 September 2010 and a copy of this Prospectus was lodged with the ASIC on that date. The ASIC and ASX take no responsibility for the content of this Prospectus.

The expiry date of the Prospectus is 24 October 2011 (**Expiry Date**). No securities will be allotted or issued on the basis of this Prospectus after the Expiry Date.

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer.

No person is authorised to give information or to make any representation in connection with this Prospectus which is not contained in the Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company in connection with this Prospectus.

In making representations in this Prospectus regard has been had to the fact that the Company 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.

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### **3. INVESTMENT SUMMARY**

#### **The Australian South Sea pearling industry produces the world's largest and most valuable cultured pearls.**

- Australia produces less than 1% of the world's pearls by weight, but more than 30% by value.
- Second largest fisheries export product in Australia by value, with approximately \$260 million exported in 2007/08.
- First farm 1950's, commercial production levels since 1980's.
- Competitive advantages of the Australian industry include:
  - Australian Pinctada Maxima oysters produce large, high quality pearls.
  - Pristine marine environment in Northern Australia.
  - Ability to re-operate a significant proportion of Australian shell after first harvest.
- Barriers to entry for competitors include:
  - Strict government regulated quota system.
  - 6 to 8 year lead time to establish a hatchery operation.
  - Limited appropriate farm areas.

#### **Arafura Pearls is now the second largest producer of Australian South Sea Pearls in Australia.**

- Founded in 1998 and listed on ASX in 2006.
- More than \$80 million invested to date in development of operations in NT and WA.
- \$50 million raised as equity and more than \$30 million through Managed Investment Schemes as a non-diluting source of finance for growth. (MIS investors share the income from first and second operations of the oysters to which they have a right.)
- Production is set to increase from approximately 60,000 pearls in the 2009 harvest to 250,000 pearls per annum within three years.

#### **Operational maturity evident in 2010 harvest.**

- Seeding of 146,000 first operations shell and 41,000 re-operated shell, a total of 187,000 shell for the Company, including the largest operation to date at Elizabeth Bay.
- Shell grown out on the sea bed and turned regularly by divers, showed 65% recovery and provided a cohort of larger sized shell than in previous years.
- Contract technicians observed uniformly high quality tissue material used in operation, which is expected to result in improved colour and lustre of pearls at harvest.

#### **The market for Australian South Sea Pearls will provide opportunities as it evolves.**

- Australian pearls command a premium to all other varieties, but present prices are historically low, at least in part from recent financial market disruptions.
- Medium term demand will be driven by emerging affluence in China, India, South America and the Middle East, in addition to the established markets of Japan, USA and Europe.

- Arafura is implementing a strategy of adding value to capture profit up the supply chain and to take advantage of a diversification of supply points in the emerging markets.

**The offer under this prospectus is at a significant discount to net assets and offers:**

- An interest in the second largest pearling company in Australia.
- Participation in significant growth both in production and profit margins as operations mature and integrate vertically.
- A significant presence in a consolidated Australian industry, with Arafura and two other groups effectively controlling all production.

**KEY RISKS**

**Weather**

Pearl farms are located in tropical areas that experience cyclone and other violent storm activity. Storms can pose a threat to both the health of the Oysters and the farm facilities. Cyclones are a recognised risk of pearling operations, which are almost universally conducted in tropical waters, and the Company has implemented procedures and strategies to attempt to mitigate the risk.

**Disease**

Pearl Oysters are animals and as such are susceptible to disease and biological conditions. Oyster health is continuously monitored by marine biologists and industry experienced staff members.

**International Competition**

Other countries in the Asian region also farm Pearls and are competitors to Australian production. An increase in production in these regions may result in an oversupply of Pearls in the world market.

**Currency Fluctuations**

The majority of the Company's Pearl production will be exported. Pearl sales are often transacted in Japanese Yen or other foreign currency. Any change in the value of the Australian dollar in relation to the Japanese Yen or other foreign currency may have an effect on the price and demand of Australian South Sea Pearls in the export market.

**Product Quality**

The price obtainable for Pearls is determined by the size and quality of the Pearl. The Company will employ the latest aquaculture techniques, suitably qualified personnel and appropriate quality control systems to ensure that production quality is of the highest possible standard.

**Commodity Prices**

Pearl market prices are dependant on the supply of and the demand for Pearls. Adverse fluctuations in either or both factors may result in reduced Pearl prices being obtained by the Company.

### **Licences and Quota**

The Australian Pearl industry is regulated through the use of a Quota system. Changes to the Quota system may impact on production levels and the prices achieved for Pearls.

### **Insurance**

Through its business, the Company is exposed to many risks which are inherent in the Pearl farming industry, some of which from time to time may not be insurable on a cost effective basis, or with cover for all possible losses.

### **Additional Requirements for Capital**

The Company's capital requirements depend on numerous factors. Depending on the Company's ability to generate income from its operations, the Company may require further financing in addition to amounts raised in the Offer. Any additional equity financing will dilute shareholdings, whilst debt financing, if available, may involve restrictions on financing and operating activities. If the Company is unable to obtain additional financing as needed, it may be required to reduce the planned scope of its operations, and may impact the Company's ability to continue as a going concern or its ongoing viability.

### **Investment Speculative**

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. See section 8 of this Prospectus for more details on the key risks. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the securities offered under this Prospectus. Therefore, the securities to be issued pursuant to this Prospectus carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those securities.

Potential investors should consider that the investment in the Company is speculative and should consult their professional advisers before deciding whether to apply for securities pursuant to this Prospectus.

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#### 4. CHAIRMAN'S LETTER

Dear Shareholder

The Board of Arafura Pearls Holdings Limited is pleased to offer Shareholders the opportunity to participate in a two (2) for three (3) non-renounceable entitlements issue of Shares, together with one (1) free attaching Option for every two (2) shares subscribed under the Issue.

All Shareholders registered as at 5.00pm (WST) on 6 October 2010 will be entitled to participate in the Offer.

The subscription Price for New Shares has been set at a price of is \$0.015 per New Share to encourage Shareholders to participate in the Offer. This is a significant discount to Net Tangible Assets per share of \$0.05 as per the unaudited 30 June 2010 balance sheet. The attaching free New Options will be exercisable at five (5) cents on or before 31 May 2012. The Company will apply for ASX listing for the New Options, as well as the New Shares.

The Offer has been underwritten by a combination of existing shareholders and non-shareholders to the amount of \$3,400,000.

The Closing Date for acceptances is 5.00pm (WST) on 26 October 2010.

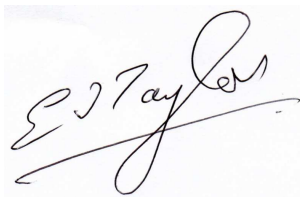
The funds raised from the issue, net of costs, will be used for working capital purposes and the repayment of debt.

Having successfully worked through a lengthy start up period typical of this industry and more recently navigating through the difficulties of a GFC, this raising will assist the Company in financing its final stage of development towards full production. With annual harvests now at commercial sizes and growing each year, and vertical integration occurring, this is an exciting time for the Company. At full production, Arafura Pearls will be a significant enterprise, being Australia's second largest pearl producer and distributor in what is a highly consolidated industry with only two other producer/distributors of significance.

The Board commends this Offer to you and advises that the Directors intend to take up their entitlements as set out in Section 9.2 of this Prospectus. You should consider the risks set out in this document in section 7 and consult your independent professional advisor if you have any queries or wish to discuss the Offer.

The Board takes this opportunity to thank all Shareholders for their past support of the Company and looks forward to your continued support in the future.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'James Taylor', written over a light blue rectangular background.

**James Taylor**  
**Executive Chairman**

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## 5. DETAILS OF THE OFFER

### 5.1 Offer of New Shares and New Options

The Offer is being made as a non-renounceable entitlement issue of two (2) New Shares and one (1) New Option for every three (3) Shares held by Shareholders registered at 5.00pm (WST) on the Record Date at an issue price of 1.5 cents per New Share. Fractional Entitlements will be rounded up to the nearest whole number.

Based on the capital structure of the Company, the maximum number of New Shares to be issued pursuant to this Offer is approximately 392,179,967, with a resultant maximum 196,089,984 New Options also issued. The Offer will raise up to approximately \$5,882,700. The purpose of the Offer and the use of funds raised are set out in Section 5 of this Prospectus.

### 5.2 How to Accept the Offer

Your acceptance of the Offer must be made on the Entitlement and Acceptance Form accompanying this Prospectus. If your acceptance exceeds your Entitlement as shown on that form, your acceptance will be deemed to be for the maximum Entitlement, with the balance as a shortfall application.

You may participate in the Offer as follows:

- (a) if you wish to accept your Entitlement in full:
  - (i) complete the Entitlement and Acceptance Form, filling in the details in the spaces provided; and
  - (ii) attach your cheque for the amount indicated on the Entitlement and Acceptance Form; or
- (b) if you only wish to accept part of your Entitlement:
  - (i) fill in the number of Shares you wish to accept in the space provided on the Entitlement and Acceptance Form; and
  - (ii) attach your cheque for the appropriate application monies (at \$0.015 per New Share); or
- (c) if you do not wish to accept all or part of your Entitlement, you are not obliged to do anything.

All cheques must be drawn on an Australian bank or bank draft made payable in Australian currency to **"Arafura Pearls Holdings Limited – Share Application Account"** and crossed **"Not Negotiable"**. Payment by cheque must be accompanied by the return of the completed Entitlement and Acceptance Form.

Payment may also be made electronically via Bpay. (See entitlement form for instructions.)



Your completed application must reach the Company's share registry no later than 5:00pm (WST) on the Closing Date.

The Offer is non-renounceable. Accordingly, a holder of Shares may not sell or transfer all or part of their Entitlement.

### **5.3 Australian Securities Exchange Listing**

Application for official quotation by ASX of the New Shares and New Options offered pursuant to this Prospectus will be made within 7 days after the date of this Prospectus. If approval is not obtained from ASX to list the New Shares before the expiration of 3 months after the date of issue of the Prospectus, (or such period as varied by the ASIC), the Company will not issue any New Shares and will repay all application monies for the Shares within the time prescribed under the Corporations Act, without interest.

The fact that ASX may grant official quotation to the New Shares and New Options is not to be taken in any way as an indication of the merits of the Company or the New Shares and New Options now offered for subscription.

### **5.4 Shortfall Offer**

Any Entitlement not taken up pursuant to the Offer will form the Shortfall. If you wish to subscribe for Shortfall Shares and attaching Options, you are invited to apply for more than your allocated Entitlement to Shares by completing the boxes provided on the Entitlement and Acceptance Form, both in relation to the number of additional shares for which application is being made and the total amount to be paid.

Applicants should send one cheque to include the total amount payable for their Entitlement and the Shortfall Application.

The Directors reserve the right to allot to an Applicant a lesser number of Shortfall Shares and Options than the number for which the Applicant applies, or to reject an application, or to not proceed with placing the Shortfall.

The offer of any Shortfall Shares and Options is a separate offer made pursuant to this Prospectus and will remain open for up to three (3) months following the Closing Date. The issue price of any Shortfall Shares shall be 1.5 cents being the price at which the Entitlement has been offered to Shareholders pursuant to this Prospectus and one free attaching New Option will be issued for each two Shortfall Shares subscribed.

#### **Unmarketable Parcels**

Holders of less than a marketable parcel (approximately 33,500 shares at a price of 1.5 cents) may care to use the ability to apply for Shortfall to round their holding up to a marketable parcel.

Whilst retaining their absolute discretion to place Shortfall, the Directors will seek to grant priority to Applicants with unmarketable parcels.

## 5.5 Underwriting

During September 2010, the Company entered into underwriting agreements with various parties, including the three directors and other third parties (Underwriters) (Underwriting Agreements) to partially underwrite the corresponding number of New Shares offered pursuant to the Offer representing 58% of the New Shares offered pursuant to the Offer.

Underwriter	Underwritten Shares	Underwritten Amount
Growth Plus Financial Group	66,666,667	\$1,000,000
Baywealth Pty Ltd	26,666,667	\$400,000
One Stop Mortgage Brokers Pty Ltd	22,965,200	\$344,478
Gibrae Pty Ltd (director related A Hewitt)	20,000,000	\$300,000
Miller Co Pty Ltd (director related J Taylor)	5,666,667	\$85,000
J Taylor Nominees Pty Ltd (director related)	5,666,667	\$85,000
Bluerise Holdings Pty Ltd (director related M Ceglinski)	1,466,667	\$22,000
Jeffrey Mews (director)	1,466,667	\$22,000
Other existing shareholders	43,122,000	\$646,830
Other non-shareholders	32,979,467	\$494,692
	<b>226,666,667</b>	<b>3,400,000</b>

\* The Directors wish to advise that while some of the Non-Director Third Parties that are Underwriters to the Offer are current Shareholders, following the issue of the Underwritten Shares none of the Non-Director Third Parties (nor any of the Directors who are Underwriters to the Offer) will hold more than 20% of the issued capital of the Company.

Pursuant to the Underwriting Agreements, the Company has agreed to pay the Underwriters an underwriting commission equal to 6% of the Underwritten Amount corresponding to the relevant Underwriter.

Each Underwriter is entitled to terminate an Underwriting Agreement upon the occurrence of any one or more of the termination events (Termination Event) including:

- (a) **adverse change:** any adverse change occurs which materially impacts or is likely to impact the assets, operational or financial position of the Company or a related corporation (including but not limited to an administrator, receiver, receiver and manager, trustee or similar official being appointed over any of the assets or undertaking of the Company or a related corporation);
- (b) **alteration of capital structure or constitution:** the Company alters its capital structure or its constitution without the prior written consent of the Underwriter;

- (c) **ASX listing:** ASX does not give approval for the Shares to be listed for official quotation, or if approval is granted, the approval is subsequently withdrawn, qualified or withheld;
- (d) **banking facilities:** the Company's bankers terminate or issue any demand or penalty notice or amending the terms of any existing facility or claiming repayment or accelerated repayment of any facility or requiring additional security for any existing facility;
- (e) **change in laws:** any of the following occurs:
  - (i) the introduction of legislation into the Parliament of the Commonwealth of Australia or of any State or Territory of Australia; or
  - (ii) the public announcement of prospective legislation or policy by the Federal Government, or the Government of any State or Territory; or
  - (iii) the adoption by the ASIC, its delegates, ASX, the Reserve Bank of Australia or any other regulatory authority of any regulations or policy,  
  
which does or is likely to prohibit, restrict or regulate the principal business of the Company, the Offer or the operation of stock markets generally;
- (f) **default:** the Company is in default of any of the terms and conditions of this Agreement or breaches any warranty or covenant given or made by it under this Agreement;
- (g) **failure to comply:** the Company or any related corporation fails to comply with any of the following:
  - (i) a provision of its constitution;
  - (ii) any statute;
  - (iii) a requirement, order or request, made by or on behalf of the ASIC or any Governmental Agency; or
  - (iv) any material agreement entered into by it;
- (h) **general meeting required:** ASX or the ASIC or any other governmental agency requires the Company to, or stipulates that the Company should, convene a general meeting to consider any aspect of the issue of the Shares, including, without limitation, the participation of the Underwriter or any sub-underwriter;
- (i) **hostilities:** there is an outbreak of hostilities or a material escalation of hostilities (whether or not war has been declared) after the date of this Agreement involving one or more of Australia, Philippines, Indonesia, Japan, Russia, the United Kingdom, the United States of America, or the Peoples Republic of China;

- (j) **indictable offence:** a director of the Company or any related corporation is charged with an indictable offence;
- (k) **investigation:** any person is appointed under any legislation in respect of companies to investigate the affairs of the Company or a related corporation;
- (l) **Judgment against a related corporation:** a judgment in an amount exceeding \$100,000 is obtained against the Company or a related corporation and is not set aside or satisfied within 7 days;
- (m) **Prescribed Occurrence:** a Prescribed Occurrence occurs;
- (n) **return of capital or financial assistance:** the Company or a related corporation takes any steps to undertake a proposal contemplated under section 257A or passes or takes any steps to pass a resolution under section 260B of the Corporations Act, without the prior written consent of the Underwriter; or
- (o) **Suspension of debt payments:** the Company suspends payment of its debts generally.

#### 5.6 Control Effect on the Company

The potential voting power of the party set out above in the Company and the effect of the full underwriting by them is set out in the table below. The table sets out various scenarios to indicate the effect on the Company's shareholding depending on the shortfall from the Offer (if any). As at the record date, the party set out above have a relevant interest in the number of Shares set out in the table below.

<b>Event</b>	<b>Number of Shares in the Company held by the Underwriter</b>	<b>Voting power of the Underwriter in the Company</b>
<b><i>Holding as at the date of the Offer Document</i></b>		
Growth Plus Financial Group	34,333,334	5.8%
Baywealth Pty Ltd	-	-
One Stop Mortgage Brokers Pty Ltd	7,995,000	1.4%
A Hewitt entities	67,858,803	11.5%
J Taylor entities	16,995,980	2.9%
M Ceglinski entities	2,191,275	0.4%
Jeffrey Mews	2,083,462	0.4%
Other existing shareholders	47,657,500	8.1%
Other non-shareholders	-	-
	<b>179,115,354</b>	<b>30.4%</b>

<b>After issue of Shares to the Underwriters assuming 100% Shortfall</b>		
Growth Plus Financial Group	101,000,001	12.5%
Baywealth Pty Ltd	26,666,667	3.3%
One Stop Mortgage Brokers Pty Ltd	30,960,200	3.8%
A Hewitt entities	87,858,803	10.9%
J Taylor entities	28,329,313	3.5%
M Ceglinski entities	3,657,942	0.5%
Jeffrey Mews	5,016,796	0.6%
Other existing shareholders	90,779,500	11.3%
Other non-shareholders	32,979,467	4.1%
	<b>407,248,688</b>	<b>50.5%</b>
<b>After issue of Shares to the Underwriters assuming 75% Shortfall</b>		
Growth Plus Financial Group	101,000,001	11.1%
Baywealth Pty Ltd	26,666,667	2.9%
One Stop Mortgage Brokers Pty Ltd	30,960,200	3.4%
A Hewitt entities	87,858,803	9.6%
J Taylor entities	28,329,313	3.1%
M Ceglinski entities	3,657,942	0.4%
Jeffrey Mews	5,016,796	0.5%
Other existing shareholders	90,779,500	9.9%
Other non-shareholders	32,979,467	3.6%
	<b>407,248,688</b>	<b>44.6%</b>
<b>After issue of Shares to the Underwriters assuming 50% Shortfall</b>		
Growth Plus Financial Group	92,006,858	9.4%
Baywealth Pty Ltd	23,069,410	2.4%
One Stop Mortgage Brokers Pty Ltd	27,862,260	2.8%
A Hewitt entities	85,160,860	8.7%
J Taylor entities	26,800,479	2.7%
M Ceglinski entities	3,460,093	0.4%
Jeffrey Mews	3,352,280	0.3%
Other existing shareholders	84,962,466	8.7%
Other non-shareholders	28,530,631	2.9%
	<b>375,205,337</b>	<b>38.3%</b>

The number of securities held by the Underwriter and their voting power in the table above show the potential effect of the underwriting of the Offer. However, it is unlikely that no shareholders will take up their entitlements under the Offer. The underwriting obligation of the Underwriter, and therefore voting power of the Underwriter, will reduce by a corresponding amount for the amount of entitlements under the Offer taken up by other shareholders. In addition, the future pattern of shareholding of the Company will change depending on the take up of entitlements under the Offer of the other shareholders.

If all shareholders take up their entitlements under the Offer, the Offer itself will not have a material effect on the control of the Company.

## **5.7 Allotment of New Shares and New Options**

New Shares and New Options issued pursuant to the Offer will be allotted as soon as practicable after the Closing Date. The Company will allot the New Shares and New Options on the basis of a Shareholder's Entitlement and Application, if any, for Shortfall Shares and Options. Where the number of Shares issued is less than the number applied for, or where no allotment is made, surplus application monies will be refunded without any interest to the applicant as soon as practicable after the Closing Date.

Pending the allotment and issue of the New Shares or payment of refunds pursuant to this Prospectus, all application monies will be held by the Company in trust for the Applicants in a separate bank account as required by the Corporations Act. The Company, however, will be entitled to retain all interest that accrues on the bank account and each Applicant waives the right to claim interest.

Statements of holding for the New Shares will be mailed as soon as possible after the Closing Date.

## **5.8 Overseas Shareholders**

This Offer does not, and is not intended to, constitute an offer in any place or jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or to issue this Prospectus.

It is not practicable for the Company to comply with the securities laws of overseas jurisdictions having regard to the number of overseas Shareholders, the number and value of New Shares these Shareholders would be offered and the cost of complying with regulatory requirements in each relevant jurisdiction. Accordingly, the Offer is not being extended and New Shares will not be issued to Shareholders with a registered address which is outside Australia or New Zealand.

Shareholders resident in New Zealand should consult their professional advisors as to whether any government or other consents are required, or other formalities need to be observed, to enable them to exercise their Entitlements under the Offer.

## **5.9 Taxation Implications**

The Directors do not consider that it is appropriate to give Applicants advice regarding the taxation consequences of applying for New Shares and attaching New Options under this Prospectus, as it is not possible to provide a comprehensive summary of the possible taxation consequences. The Company, its advisers and officers, do not accept any responsibility or liability for any taxation consequences to Applicants. Potential Applicants should, therefore, consult their own professional tax adviser in connection with the taxation implications of the New Shares offered pursuant to this Prospectus.

## **5.10 Privacy Act**

If you complete an application for New Shares, you will be providing personal information to the Company (directly or by the Company's share registry). The Company collects, holds and will use that information

to assess your application, service your needs as a Shareholder, facilitate distribution payments and corporate communications to you as a Shareholder and carry out administration.

The information may also be used from time to time and disclosed to persons inspecting the register, bidders for your securities in the context of takeovers, regulatory bodies, including the Australian Taxation Office, authorised securities brokers, print service providers, mail houses and the Company's share registry.

You can access, correct and update the personal information that we hold about you. Please contact the Company or its share registry if you wish to do so at the relevant contact numbers set out in this Prospectus.

Collection, maintenance and disclosure of certain personal information is governed by legislation including the Privacy Act 1988 (Cth) (as amended), the Corporations Act and certain rules such as the ASTC Settlement Rules. You should note that if you do not provide the information required on the application for New Shares, the Company may not be able to accept or process your application.

#### **5.11 Enquiries**

Any questions concerning the Offer should be directed to the Company Secretary, Annabelle Bechta, on (08) 9382 4818.

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## 6. PURPOSE AND EFFECT OF THE OFFER

### 6.1 Purpose of the Offer

The purpose of the Offer is to raise approximately \$5,882,700 (before expenses). The funds raised from the Offer will be applied towards repayment of debt, general working capital and expenses of the Offer.

### 6.2 Effect of the Offer and Pro Forma Balance Sheet

- (a) Since the balance date of 30 June 2010 a placement was made in July 2010 raising \$1,050,000 for use as general operating working capital, less 6% fees paid.
- (b) The principal effects of the Offer under this Prospectus will be to:
- i. increase the cash reserves by approximately \$5,882,700 immediately after completion of the Offer (before deducting the estimated expenses of the Offer);
  - ii. repay \$1,500,000 of interest bearing liabilities from this cash balance;
  - iii. pay down interest bearing convertible notes amounting to \$1,540,000, including notes held by directors J Taylor, \$1,340,000, and A Hewitt, \$100,000. These notes have been rescheduled from a maturity date of 30 June 2010 to be repaid 50% at 30 September 2010 and 50% at 31 December 2010. If this Issue is fully subscribed the Company may pay out this debt immediately;
  - iv. increase the number of New Shares on issue from 588,269,950 as at the date of this Prospectus, to approximately 980,449,917 Shares, on the basis that the Offer is fully subscribed; and
  - v. Issue 196,089,984 options exercisable at 5 cents per share on or before 31 May 2012.

### 6.3 Effect on Capital Structure

A table of changes in the capital structure of the Company as a consequence of the Offer is set out below, assuming that the Offer is fully subscribed.

<b>Shares</b>	<b>Number</b>
Shares on issue at 30 June 2010	511,744,950
Shares issued in placement July 2010	6,525,000
Shares issued in placement July 2010	70,000,000
Shares issued at the date of this Prospectus	588,269,950
New Shares Offered pursuant to this Prospectus	392,179,967
	<hr/>
	980,449,917



## 6.4 Balance Sheet

The unaudited Consolidated Balance Sheet as at 30 June 2010 and the unaudited Pro Forma Balance Sheet as at 30 June 2010, shown on the following page, have been prepared on the basis of the accounting policies normally adopted by the Company and reflect the changes to its financial position. They have been prepared on the assumption that all New Shares pursuant to this Prospectus are issued.

Movements in the balance sheet accounts between the unaudited balance sheet at 30 June 2010 and the pro forma balance sheet at 30 June 2010 are shown in the table below:

Account	Unaudited	Movement	Movement	Unaudited
	30 June 10	July 10 Placement	This Prospectus	Pro forma 30 June 10
Cash & Cash Equivalents	171,704	987,000	2,587,917	3,746,621
Interest bearing liabilities	(3,707,936)		3,040,000	(667,936)
		<u>987,000</u>	<u>5,627,917</u>	
New Shares		1,050,000	5,882,700	
Share Issue Costs		(63,000)	(254,783)	
Contributed Equity	49,789,416	<u>987,000</u>	<u>5,627,917</u>	56,404,333

### Balance Sheets

The consolidated group balance sheet at 30 June 2010, from the Preliminary Final Report released to ASX on 31 August 2010 but still subject to audit, and the pro-forma consolidated group balance sheet at that date, adjusted for the proceeds of a placement in July and the New Shares issued and costs of the raising, are set out below.

	<b>Unaudited 30 June 2010 \$</b>	<b>Unaudited Pro forma 30 June 2010 \$</b>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	171,704	3,746,621
Other Receivables	2,240,959	2,240,959
Biological Assets	6,964,319	6,964,319
Inventories	1,125,687	1,125,687
<b>Other Assets</b>	92,801	92,801
<b>TOTAL CURRENT ASSETS</b>	<u>10,595,471</u>	<u>14,170,388</u>
<b>NON-CURRENT ASSETS</b>		
Biological Assets	20,413,176	20,413,176
Property, Plant & Equipment	7,274,924	7,274,924
Intangible Assets	5,316,353	5,316,353
Other	560,589	560,589
<b>TOTAL NON-CURRENT ASSETS</b>	<u>33,565,041</u>	<u>33,565,041</u>
<b>TOTAL ASSETS</b>	<u>44,160,512</u>	<u>47,735,429</u>
<b>CURRENT LIABILITIES</b>		
Payables	3,489,366	3,489,366
Interest Bearing Liabilities	3,707,936	667,936
Provisions	43,600	43,600
Other	2,245,295	2,245,295
<b>TOTAL CURRENT LIABILITIES</b>	<u>9,486,197</u>	<u>6,446,197</u>
<b>NON CURRENT LIABILITIES</b>		
Interest Bearing Liabilities	2,230,615	2,330,615
Other	1,093,582	1,093,582
Deferred Tax Liabilities	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>	<u>3,324,197</u>	<u>3,324,197</u>
<b>TOTAL LIABILITIES</b>	<u>12,810,394</u>	<u>9,770,394</u>
<b>NET ASSETS</b>	<u><b>31,350,118</b></u>	<u><b>37,965,035</b></u>
<b>EQUITY</b>		
Contributed Equity	49,789,416	56,404,333
Reserves	818,092	818,092
Accumulated Profits/(Losses)	(19,257,390)	(19,257,390)
<b>TOTAL EQUITY</b>	<u><b>31,350,118</b></u>	<u><b>37,965,035</b></u>

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## **7. RIGHTS AND LIABILITIES ATTACHING TO THE SHARES AND OPTIONS**

### **7.1 Terms and Conditions of New Shares**

- (a) The New Shares are freely transferable.
- (b) All New Shares will rank *pari passu* in all respects with the Company's existing ordinary fully paid Shares. The Company will apply for Official Quotation by the ASX of all New Shares issued.

### **7.2 Rights Attaching to Shares**

The rights, privileges and restrictions attaching to Shares can be summarised as follows:

#### **(a) General Meetings**

Shareholders are entitled to be present in person, or by proxy, attorney or representative to attend and vote at general meetings of the Company.

Shareholders may requisition meetings in accordance with Section 249D of the Corporations Act and the Constitution of the Company.

#### **(b) Voting Rights**

Subject to any rights or restrictions for the time being attached to any class or classes of Shares, at general meetings of shareholders or classes of shareholders:

- (i) each Shareholder entitled to vote may vote in person or by proxy, attorney or representative;
- (ii) on a show of hands, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder has one vote; and
- (iii) on a poll, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder shall, in respect of each fully paid share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for the share, but in respect of partly paid Shares shall have such number of votes as bears the same proportion to the total of such Shares registered in the Shareholder's name as the amount paid (not credited) bears to the total amounts paid and payable (excluding amounts credited).

#### **(c) Dividend Rights**

Subject to the rights of persons (if any) entitled to Shares with special rights to dividend the Directors may declare a final dividend out of profits in accordance with the Corporations Act and may authorise the payment or crediting by the Company to the Shareholders of such a dividend. The Directors may authorise the payment or crediting by the Company to the

Shareholders of such interim dividends as appear to the Directors to be justified by the profits of the Company. Subject to the rights of persons (if any) entitled to shares with special rights as to dividend all dividends are to be declared and paid according to the amounts paid or credited as paid on the Shares in respect of which the dividend is paid. Interest may not be paid by the Company in respect of any dividend, whether final or interim.

(d) Winding-Up

If the Company is wound up, the liquidator may, with the authority of a special resolution of the Company, divide among the Shareholders in kind the whole or any part of the property of the Company, and may for that purpose set such value as he considers fair upon any property to be so divided, and may determine how the division is to be carried out as between the Shareholders or different classes of Shareholders. The liquidator may, with the authority of a special resolution of the Company, vest the whole or any part of any such property in trustees upon such trusts for the benefit of the contributories as the liquidator thinks fit, but so that no shareholder is compelled to accept any shares or other securities in respect of which there is any liability. Where an order is made for the winding up of the Company or it is resolved by special resolution to wind up the Company, then on a distribution of assets to members, Shares classified by ASX as restricted securities at the time of the commencement of the winding up shall rank in priority after all other shares.

(e) Transfer of Shares

Generally, Shares in the Company are freely transferable, subject to formal requirements, the registration of the transfer not resulting in a contravention of or failure to observe the provisions of a law of Australia and the transfer not being in breach of the Corporations Act or the Listing Rules.

(f) Variation of Rights

Pursuant to Section 246B of the Corporations Act, the Company may, with the sanction of a special resolution passed at a meeting of shareholders vary or abrogate the rights attaching to shares.

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class), whether or not the Company is being wound up may be varied or abrogated with the consent in writing of the holders of three-quarters of the issued shares of that class, or if authorised by a special resolution passed at a separate meeting of the holders of the shares of that class.

### 7.3 Option conditions

- 1) No monies will be payable for the issue of the Options.
- 2) A holding statement will be issued for the Options.

- 3) The Options shall expire at 5.00pm WST on 31 May 2012 ("**Expiry Date**").
- 4) The Options entitle the holder to subscribe (in respect of each Option held) for one fully paid ordinary share in the capital of Arafura Pearls for an exercise price of 5 cents.
- 5) The Options may be exercised at any time from the date of grant and on or before the Expiry Date, in whole or in part, provided that Options exercised in part may not be exercised in parcels of less than one thousand (1,000) except that if the Option holder holds less than one thousand (1,000) Options then these Options may be exercised.
- 6) The exercise price of shares the subject of the Options shall be payable in full on exercise of the Options.
- 7) Options shall be exercisable by the delivery to the registered office of Arafura Pearls of a notice in writing stating the intention of the Option holder to:
  - a) exercise all or a specified number of Options; and
  - b) pay the subscription monies in full for the exercise of each Option.
- 8) The notice must be accompanied by a cheque made payable to Arafura Pearls for the subscription monies for the Shares. An exercise of only some Options shall not affect the rights of the Option holder to the balance of the Options held by the Option holder.
- 9) The Company shall allot the resultant shares and deliver the holding statement within (8) business days of exercise of the Option.
- 10) Shares allotted pursuant to an exercise of Options shall rank, from the date of allotment, equally with existing ordinary fully paid shares of the Company in all respects
- 11) The Options will not give any right to participate in dividends, bonus issues or entitlement issues until shares are allotted pursuant to the exercise of the relevant Options. There is no right to change the exercise price of the Options nor the number of underlying shares over which the Options can be exercised, if the Company completes a bonus or entitlements issue. The Company will ensure that during the exercise period for the purpose of determining entitlements to any such new issues, the books closing date will be at least 8 days after such new issues are announced in order to afford the Option holders an opportunity to exercise their Options.
- 12) In the event of a re-organisation (including consolidation, subdivision, reduction or return) of the issued capital of the Company, the rights of the Option holder will be changed to the extent necessary to comply with the Listing Rules applying to the reconstruction of capital, at the time of reconstruction.
- 13) The Company shall in accordance with the rules of ASX and subject to any restrictions by ASX, make application to have shares allotted pursuant to an exercise of Options listed for official quotation. Shares issued pursuant to exercise of options are transferable.

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## **8. RISK FACTORS**

### **8.1 Introduction**

An investment in the Company is not risk free and prospective new investors should consider the risk factors described below, together with information contained elsewhere in this Offer Document, before deciding whether to apply for Shares.

The aquaculture industry is a high risk industry, and Pearl farming is a high risk business. The Company has reached a stage of maturity where some of this risk has been reduced. In addition, the Company will continue to monitor risk and undertake appropriate actions to minimise ongoing risk. Notwithstanding this, an investment in the Company is not risk free and prospective new investors should consider the risk factors described below, together with information contained elsewhere in this Prospectus, before deciding whether to apply for Shares pursuant to this Prospectus.

The following is not intended to be an exhaustive list of the risk factors to which the Company is exposed.

### **8.2 Industry and Business Risk**

Risk factors involved with the aquaculture industry and Pearl farming include: -

#### **(a) Pollution**

Pollution is a direct threat to Oysters that live in the ocean and can have a detrimental impact on Oyster mortality, Pearl size and quality.

#### **(b) Weather**

Pearl farms are located in tropical areas that experience cyclone and other violent storm activity. Storms can pose a threat to both the health of the Oysters and the farm facilities. Cyclones are a recognised risk of pearling operations, which are almost universally conducted in tropical waters, and the Company has implemented procedures and strategies to attempt to mitigate the risk.

#### **(c) Technical**

Pearl farming is a delicate process and requires sound technical judgement to maximise Oyster survival and Pearl quality. The appointment of highly experienced Pearl farming staff ensures that the most efficient procedures will be followed to maximise Oyster survival and Pearl quality.

#### **(d) Disease**

Pearl Oysters are animals and as such are susceptible to disease and biological conditions. Oyster health is continuously monitored by marine biologists and industry experienced staff members.

**(e) Safety**

The Company's Pearl farm is located in the Northern Territory. In a remote environment, illness and accidents can have a detrimental impact on the operation of the Company. The Company has implemented an occupational health and safety program. Onsite staff are trained in first aid and emergency evacuation procedures are in place.

**(f) Loss of Key Staff**

Pearl farm operations are dependent on a small number of experienced staff. Appropriate remuneration packages and working conditions are offered to encourage key staff members to maintain employment at the Company.

**(g) Management Ability**

The Company is dependent on the ability of key staff to manage the ongoing operations of the Pearl farm project. Low quality management may adversely affect the operations of the Company. The Company has a strong management team with prior experience in the Pearl industry (see section 8 for further details).

**(h) Default of Contracting Parties**

Any default by relevant parties of any of the material agreements (eg suppliers, consultants) may have an adverse impact on the operation of the Company.

**(i) International Competition**

Other countries in the Asian region also farm Pearls and are competitors to Australian production. An increase in production in these regions may result in an oversupply of Pearls in the world market.

**(j) Currency Fluctuations**

The majority of the Company's Pearl production will be exported. Pearl sales are often transacted in Japanese Yen or other foreign currency. Any change in the value of the Australian dollar in relation to the Japanese Yen or other foreign currency may have an effect on the price and demand of Australian South Sea Pearls in the export market.

**(k) Product Quality**

The price obtainable for Pearls is determined by the size and quality of the Pearl. The Company will employ the latest aquaculture techniques, suitably qualified personnel and appropriate quality control systems to ensure that production quality is of the highest possible standard.

**(l) Commodity Prices**

Pearl market prices are dependant on the supply of and the demand for Pearls. Adverse fluctuations in either or both factors may result in reduced Pearl prices being obtained by the Company.

**(m) Licences and Quota**

The Australian Pearl industry is regulated through the use of a Quota system. Changes to the Quota system may impact on production levels and the prices achieved for Pearls.

**(n) Security**

Pearls are a high value commodity and accordingly the risk of theft is present. The Company regularly reviews the appropriateness of its security measures.

**(o) Insurance**

Through its business, the Company is exposed to many risks which are inherent in the Pearl farming industry, some of which from time to time may not be insurable on a cost effective basis, or with cover for all possible losses.

**(q) Regulatory Risk**

The Northern Territory pearl industry is regulated through the use of a quota system. Changes to the quota system may impact production levels and prices of pearls. There is a significant production lead time from any decision to increase production to the presentation of pearls available for sale. A change in the present quota system will require a number of years to pass before there is an impact on supply.

**(r) Unforeseen Expenditure**

Expenditure may need to be incurred that has not been taken into account in the preparation of this Prospectus. Although the Company is not aware of any such additional expenditure requirements, if such expenditure is subsequently incurred, this may adversely affect the expenditure proposals of the Company.

**8.3 Economic Risks**

General economic conditions, movements in interest and inflation rates and currency exchange rates may have an adverse effect on the Company's Pearl farming activities, as well as on its ability to fund those activities.

Further, share market conditions may affect the value of the Company's quoted securities regardless of the Company's operating performance. Share market conditions are affected by many factors such as:

- (a) general economic outlook;



- (b) interest rates and inflation rates;
- (c) currency fluctuations;
- (d) changes in investor sentiment toward particular market sectors;
- (e) the demand for, and supply of, capital; and
- (f) terrorism or other hostilities.

#### **8.4 Additional Requirements for Capital**

The Company's capital requirements depend on numerous factors. Depending on the Company's ability to generate income from its operations, the Company may require further financing in addition to amounts raised in the Offer. Any additional equity financing will dilute shareholdings, whilst debt financing, if available, may involve restrictions on financing and operating activities. If the Company is unable to obtain additional financing as needed, it may be required to reduce the planned scope of its operations and may impact the Company's ability to continue as a going concern or its ongoing viability.

#### **8.5 Market Conditions**

The market price of the Shares can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general and resource exploration stocks in particular. Neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the Company.

#### **8.6 Permit Risks and Native Title**

Interests in tenements in Australia are governed by the respective State 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, the Company could lose title to or its interest in tenements if licence conditions are not met.

It is also possible that, in relation to licences and leases in which the Company has an interest, there may be areas over which legitimate common law native title rights of Aboriginal Australians exist. If native title rights do exist, the ability of the Company to gain or retain access to tenements (through obtaining consent of any relevant landowner) may be adversely affected.

#### **8.7 Reliance on Key Management**

The responsibility of overseeing the day-to-day operations and the strategic management of the Company depends substantially on its senior management and its key personnel. There can be no assurance given that there will be no detrimental impact on the Company if one or more of these employees cease their employment.

## **8.8 Investment Speculative**

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the securities offered under this Prospectus. Therefore, the securities to be issued pursuant to this Prospectus carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those securities.

Potential investors should consider that the investment in the Company is speculative and should consult their professional advisers before deciding whether to apply for securities pursuant to this Prospectus.

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## **9. ADDITIONAL INFORMATION**

### **9.1 Continuous Disclosure Obligations**

The Company is a “disclosing entity” (as defined in Section 111AC of the Corporations Act) for the purposes of Section 713 of the Corporations Act and, as such, is subject to regular reporting and disclosure obligations. Specifically, like all listed companies, the Company is required to continuously disclose any information it has to the market which a reasonable person would expect to have a material effect on the price or the value of the Company’s securities. The Shares which will be issued pursuant to this Prospectus are in the same class of Shares that have been quoted on the official list of the ASX during the 3 months prior to the issue of this Prospectus.

This Prospectus is a “transaction specific prospectus”. In general terms “transaction specific prospectuses” are only required to contain information in relation to the effect of the issue of securities on the Company and the rights attaching to the securities. It is not necessary to include general information in relation to all of the assets and liabilities, financial position, profits and losses or prospects of the issuing company.

This Prospectus is intended to be read in conjunction with the publicly available information in relation to the Company which has been notified to ASX and does not include all of the information that would be included in a prospectus for an initial public offering of securities in an entity that is not already listed on a stock exchange. Investors should therefore have regard to the other publicly available information in relation to the Company before making a decision whether or not to invest.

Having taken such precautions and having made such enquires as are reasonable, the Company believes that it has complied with the general and specific requirements of ASX as applicable from time to time throughout the 3 months before the issue of this Prospectus which required the Company to notify ASX of information about specified events or matters as they arise for the purpose of ASX making that information available to the stock market conducted by ASX.

Information that is already in the public domain has not been reported in this Prospectus other than that which is considered necessary to make this Prospectus complete.

The Company, as a disclosing entity under the Corporations Act states that:

- (a) it is subject to regular reporting and disclosure obligations;
- (b) copies of documents lodged with the ASIC in relation to the Company (not being documents referred to in Section 1274(2)(a) of the Corporations Act) may be obtained from, or inspected at, the offices of the ASIC; and
- (c) to the extent they are available, it will provide a copy of each of the following documents, free of charge, to any person on

request between the date of issue of this Prospectus and the Closing Date:

- (i) the annual financial report most recently lodged with the ASIC by the Company and any half-year financial report lodged with the ASIC by the Company after the lodgement of that annual report and before the lodgement of this Prospectus with the ASIC; and
- (ii) any documents used to notify ASX of information relating to the Company in the period from lodgement of the financial statements referred to in paragraph (i) above until the issue of the Prospectus in accordance with the Listing Rules as referred to in Section 674(1) of the Corporations Act.

Copies of all documents lodged with the ASIC in relation to the Company can be inspected at the registered office of the Company during normal office hours.

The Company has lodged the following announcements with ASX since lodgement of the Company's 2009 Annual Report:

<b>Date</b>	<b>Announcement Header</b>
16/09/2009	Latest Company Presentation
30/09/2009	Full Year Statutory Accounts
09/10/2009	Appendix 3B
09/10/2009	Share Allotment s708 Declaration
16/10/2009	Change in Substantial Holding
27/10/2009	Annual Report to shareholders
27/10/2009	Notice of AGM & Proxy Form
29/10/2009	Appendix 4C quarterly
13 /11/2009	Appendix 3B
13/11/2009	Share Allotment s708 declaration
25/11/2009	Arafura Pearl Project PDS
26/11/2009	AGM CEO address to shareholders
26/11/2009	AGM Results
11/12/2009	Change in substantial shareholding
25/01/2010	Appendix 3B
25/01/2010	Share allotment S708 declaration
29/01/2010	Appendix 4C quarterly
01/02/2010	Director resignation
01/02/2010	Final director's interest notice
04/02/2010	Rights issue announcement S708 notice
04/02/2010	Rights issue offer document
04/02/2010	Rights issue quotation application

04/02/2010	Letter to shareholders
05/02/2010	Correction to rights issue documentation
17/02/2010	Rights issue document despatch
26/02/2010	Half yearly report and accounts
12/03/2010	Rights issue results
17/03/2010	Appendix 3B
17/03/2010	Share allotment S708 declaration
17/03/2010	Change in director's interest notice
17/03/2010	Change in director's interest notice
17/03/2010	Change in director's interest notice
17/03/2010	Change in substantial shareholding
17/03/2010	Company secretary resignation
23/04/2010	Appendix 4C quarterly
18/06/2010	Change in directors interest notice
18/06/2010	Change in substantial holding notice
09/07/2010	MIS 2010 & Board announcement
15/07/2010	Initial director's interest notice
30/07/2010	Placement
30/07/2010	Appendix 3B
30/07/2010	Share allotment s708 declaration
30/07/2010	Appendix 4C quarterly
01/09/2010	Preliminary final report

ASX maintains files containing publicly available information for all listed companies. The Company's file is available for inspection at ASX during normal office hours.

## **9.2 Directors' Interests**

Other than as set out below or elsewhere in this Prospectus, no Director nor any firm in which such a Director is a partner, has or had within 2 years before the lodgement of this Prospectus with the ASIC, any interest in:

- (a) the formation or promotion of the Company;
- (b) property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offer of securities pursuant to this Prospectus; or
- (c) the Offer of securities pursuant to this Prospectus,

and no amounts have been paid or agreed to be paid (in cash or Shares or otherwise) to any Director or to any firm in which any such Director is a partner, either to induce him to become, or to qualify him as, a Director or otherwise for services rendered by him or by the firm in connection

with the formation or promotion of the Company or Offer of securities pursuant to this Prospectus.

Directors' relevant interests in the Shares of the Company at the date of this Prospectus are:

<b>Name</b>	<b>Shares</b>	<b>Entitlement</b>	<b>Intended Application<sup>1</sup> (shares)</b>	<b>Intended Subscription<sup>1</sup> (\$)</b>	<b>Total Shares after Issue</b>
James Taylor	16,995,980	11,330,653	11,333,333	170,000	28,329,313
Mark Ceglinski	2,191,275	1,460,850	1,466,667	22,000	3,657,942
Jeffrey Mews	2,083,462	1,388,975	1,466,667	22,000	3,550,129
Andrew Hewitt	66,401,798	44,267,865	20,000,000	300,000	86,401,798

1. Each of the Directors has indicated that it is their present intention to subscribe the amount shown in this table.

Directors' relevant interests in Options in the Company at the date of this Prospectus are:

<b>Name</b>	<b>Exercise Price \$0.25 Expiry Date 30/09/10</b>
Mark Ceglinski	2,000,000
Jeffrey Mews	1,000,000
Andrew Hewitt	4,000,000
James Taylor	Nil

Note: These options will expire unexercised prior to the record date of the Issue under this Prospectus.

Mr James Taylor also holds convertible notes to the value of \$1,340,000 convertible into shares at 70% of the 30 day Volume Weighted Average Price. Mr Andrew Hewitt holds \$100,000 of the same class of convertible notes. These notes matured on 30 June 2010 but have been rescheduled for repayment 50% at 30 September 2010 and 50% at 31 December 2010. If the Issue is fully subscribed, these notes may be repaid in full immediately upon completion of the issue.

The Company's Constitution provides that the remuneration of non-executive Directors will be not more than the aggregate fixed sum determined by a general meeting. The aggregate remuneration has been set at an amount of \$200,000 per annum. The executive chairman is paid a fee of \$60,000 per annum plus superannuation and the non-executive director fee is \$35,000 per annum plus superannuation.

The remuneration of executive Directors will be fixed by the Directors and may be paid by way of fixed salary. As at the date of this Prospectus, Mr A.M.R Hewitt is the only full time executive director of the Company and, pursuant to an employment contract executed between the parties, receives a fixed salary package for the amount of \$365,000.

The following payments have been made, or have been accrued, to the Directors in relation to services provided over two financial years prior to the date of this Prospectus.

<b>Director</b>	<b>Salary/ Fees</b>	<b>Super-annuation</b>	<b>Equity Options</b>	<b>Total</b>
Mr J Taylor (appointed 9/07/2010)	-	-	-	-
Mr M Ceglinski	120,000	10,800	95,906	226,706
Mr J A S Mews	38,513	37,788	47,953	124,254
Mr A M R Hewitt	806,226 <sup>(1)</sup>	141,668	191,811	1,139,705
Capt C J Cleveland (resigned 28/01/2010)	51,539	101,062	47,953	200,554

(1) Includes \$199,903 of annual leave and long service leave converted to subscribe to previous entitlement issues.

Directors may be reimbursed for out of pocket expenses incurred as a result of their directorships or any special duties.

### **9.3 Interests and Consents of Experts and Advisers**

Other than as set out below or elsewhere in this Prospectus, no expert, underwriter, promoter or any other person named in this Prospectus as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of the Prospectus, nor any firm in which any of those persons is or was a partner, nor any company with which any of those persons is or was associated, has or had within two (2) years before the lodgement of this Prospectus with the ASIC, any interest in:

- (a) the formation or promotion of the Company; or
- (b) property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offer of securities pursuant to this Prospectus; or
- (c) the Offer of securities pursuant to this Prospectus,

and no amounts have been paid or agreed to be paid (in cash or Shares or otherwise) to any expert, underwriter, promoter or any other person named in this Prospectus as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of this Prospectus, or to any firm in which any of those persons is or was a partner, or to any company with which any of those persons is or was associated, for services rendered by that person, or by the firm or the company, in connection with the formation or promotion of the Company or the Offer of securities pursuant to this Prospectus.

Pursuant to Section 716 of the Corporations Act, each Underwriter named in this Prospectus has given, and has not withdrawn its consent to being named as Underwriter to the Company in this Prospectus in the form and context in which it is named. None of the Underwriters has

caused or authorised the issue of this Prospectus, do not make or purport to make any statement in this Prospectus and take no responsibility for any part of this Prospectus.

#### **9.4 Legal Proceedings**

There is no litigation, arbitration or proceedings pending against or involving the Company as at the date of this Prospectus.

#### **9.5 Estimated Expenses of Offer**

In the event that the Offer is fully subscribed, the estimated expenses of the Offer are as follows:

	<b>\$</b>
ASIC fees	2,010
Listing fees	20,794
Printing and other expenses	5,000
Underwriting and Management Fees	204,000
Goods & Services Tax – input taxed	22,979
<b>Total</b>	<b><u>254,783</u></b>

#### **9.6 Market Price of Shares**

The Company is a disclosing entity for the purposes of the Corporations Act and its Shares are enhanced disclosure securities quoted on ASX.

The highest and lowest market sale prices of the Company's Shares on ASX during the three months immediately preceding the date of lodgement of this Prospectus with the ASIC and the respective dates of those sales were:

Highest: 1.9 cents from 20 to 29 July and 10 to 21 September 2010;  
and

Lowest: 1 cent on 28 June 2010.

The latest available closing sale price of the Company's Shares on ASX prior to the lodgement of this Prospectus with the ASIC was 1.8 cents on 23 September 2010.



## **9.7 Electronic Prospectus**

Pursuant to Class Order 00/044, the ASIC has exempted compliance with certain provisions of the Corporations Act 2001 to allow distribution of an electronic prospectus and electronic application form on the basis of a paper prospectus lodged with the ASIC, and the publication of notices referring to an electronic prospectus or electronic application form, subject to compliance with certain conditions.

If you have received this Prospectus as an electronic Prospectus, please ensure that you have received the entire Prospectus accompanied by the Entitlement and Acceptance Form. If you have not, please phone the Company on (08) 9382 4818 and the Company will send you, for free, either a hard copy or a further electronic copy of the Prospectus, or both.

The Company reserves the right not to accept an Entitlement and Acceptance Form from a person if it has reason to believe that when that person was given access to the electronic Entitlement and Acceptance Form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

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**10. AUTHORITY OF DIRECTORS**

Each of the Directors of Arafura Pearls Holdings Limited has consented to the lodgement of this Prospectus with the ASIC in accordance with Section 720 of the Corporations Act.

Dated the 24<sup>th</sup> day of September 2010

A handwritten signature in black ink, appearing to read 'A.M.R. Hewitt', with a large loop at the bottom.

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**MR ANDREW M R HEWITT  
DIRECTOR  
FOR AND ON BEHALF OF  
ARAFURA PEARLS HOLDINGS LIMITED**

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## 11. DEFINITIONS

**Applicant** means a Shareholder or other party who applies for New Shares pursuant to the Offer or the Shortfall Offer.

**ASIC** means the Australian Securities and Investments Commission.

**ASTC Settlement Rules** means the settlement rules of the securities clearing house which operates CHES.

**ASX** means the ASX Limited (ACN 008 624 691) or the Australian Securities Exchange, as the context requires.

**Board** means the board of Directors unless the context indicates otherwise.

**Business Day** means a day on which trading takes place on the stock market of ASX.

**Closing Date** means the closing date of the Offer, being 5pm (WST) on 26 October 2010 (unless extended).

**Company** means Arafura Pearls Holdings Limited (ABN 88 092 266 067).

**Constitution** means the Company's Constitution as at the date of this Prospectus.

**Corporations Act** means the Corporations Act 2001 (Cth).

**Directors** mean the directors of the Company at the date of this Prospectus.

**Dollar** or "\$" means Australian dollars.

**Entitlement** means the entitlement of a Shareholder who is eligible to participate in the Offer.

**Entitlement and Acceptance Form** means the entitlement and acceptance form either attached to or accompanying this Prospectus.

**Issue** means the issue of Shares offered by this Prospectus.

**Listing Rules** or **ASX Listing Rules** means the Listing Rules of the ASX.

**New Option** means an option attaching to every two (2) New Shares issued, such New Options being exercisable at a price of five (5) cents per Share on or before 5.00pm WST on 31 May 2012.

**New Share** means a Share to be issued under the Offer, either as an Entitlement or from a Shortfall Application.

**Offer** means the non-renounceable entitlement offer of two (2) New Shares and one (1) New Option for every three (3) Shares held by Shareholders on the Record Date, further details of which are included in the "Details of the Offer" section of this Prospectus.

**Offer Period** means the period commencing on the Opening Date and ending on the Closing Date.

**Official List** means the official list of ASX.

**Opening Date** means 12 October 2010.

**Prospectus** means this prospectus.

**Quotation** and **Official Quotation** means official quotation on ASX.

**Record Date** means 5pm (WST) on 6 October 2010.

**Share** means a fully paid ordinary share in the capital of the Company.

**Shareholder** means a shareholder of the Company.

**Shortfall** means those New Shares under the Offer not applied for by Shareholders under their respective Entitlement.

**Shortfall Application** means the completion of the section of the Entitlement Form which relates to additional New Shares in excess of a shareholders Entitlement.

**WST** means Western Standard Time, as observed in Perth, Western Australia.