ARAFURA RESOURCES LIMITED

NOTICE OF
EXTRAORDINARY GENERAL MEETING & EXPLANATORY MEMORANDUM TO SHAREHOLDERS

A PROXY FORM IS ENCLOSED

DATE OF MEETING
18 OCTOBER 2012

TIME OF MEETING
2.30 PM WST

PLACE OF MEETING
THE DUXTON HOTEL,
ROOM: DUXTON 3,
1 ST GEORGES TERRACE,
PERTH, WESTERN AUSTRALIA

Please read the Notice and Explanatory Memorandum carefully.

If you are unable to attend the meeting please complete and return the enclosed proxy form in accordance with the specified instructions.

ABN 22 080 933 455

Arafura Resources Limited

ABN 22 080 933 455

Important Information

This is an important document that should be read in its entirety.

If you do not understand it, or any part of it, you should consult with your professional advisers without delay.

This Notice of Extraordinary General Meeting is accompanied with an Explanatory Memorandum. Also annexed to the Explanatory Memorandum is an Independent Expert's Report. The Explanatory Memorandum and its annexures have been prepared to assist Shareholders in determining whether or not to vote in favour of the Resolution set out in this Notice of Extraordinary General Meeting.

The Explanatory Memorandum and its annexures are intended to be read in conjunction with this Notice of Extraordinary General Meeting.

You are encouraged to attend the Meeting, but if you cannot, you are requested to complete and return the enclosed Proxy form without delay to:

Arafura Resources Limited
Level 5
16 St George's Terrace
PERTH, WA, 6000
OR
PO Box 5773, St Georges Tce, Perth, WA 6831
Telephone: (08) 6210 7666
Facsimile: (08) 9221 7966

Contents

Arafura Resources Limited

ABN 22 080 933 455

Chairman's Letter

Dear Shareholder

On behalf of the Arafura Board, I am pleased to present to shareholders an offer made from our largest shareholder, ECE Nolans Investment Company Proprietary Limited, for the subscription of 45,266,500 shares in the Company at $0.22 per share, for a total cash injection of approximately $9.9 million.

ECE have a long relationship with Arafura, first investing in the Company in 2009 when ECE took a 24.86% ownership stake. Since then, Arafura has undertaken several equity transactions that has diluted ECE's ownership down to 16.27%. In 2012 ECE have shown continuing faith in the Company and the Nolans Rare Earths Project, by agreeing, subject to Shareholder and other regulatory bodies approvals in both the People's Republic of China and Australia, to increase their current ownership percentage of 16.27% back to 24.86%.

In August we were pleased to present our Nolans Project update. The document aims to show shareholders and the world your Company's achievements, in particular, it makes transparent the level of progress on the Nolans feasibility study.

The document highlights the scale of the Nolans Project and its longevity and it also demonstrates the prospective strong financial returns for Arafura and its shareholders.

The placement to ECE will assist Arafura to meet its short term funding requirements as we progress toward project finance in 2013, however, further funding will be needed in addition to the ECE contribution and this may lead to dilution for ECE from the 24.86%. ECE recognise this and have provided introductions to Arafura to other parties who may be interested in investment or financing opportunities in both the near and longer term.

A number of other offers of assistance have also been received from different sources and we are currently assessing those opportunities.

The Independent Directors of Arafura recommend shareholders vote in favour of the transaction due to the attractiveness of the proposal. At the time of ECE's offer, 19 June 2012, the closing share price and 15 day volume weighted average share price (VWAP) was A$0.20. ECE's offer represents a 10% premium over this price which we believe is a great outcome in times of global uncertainty. Most investors are demanding share placements to be done at heavily discounted prices.

In addition, following the Nolans Project Update discussions between Arafura and ECE, ECE has introduced Arafura to Chinese parties capable of doing technical reviews of the project with the goal to identify possible cost savings in both capital and operating expenditure.

The placement requires the support of Arafura shareholders and, included in this document, is a Notice of Extraordinary General Meeting, Explanatory Memorandum and Independent Expert's Report which requires your attention. The Independent Expert has also concluded that proposed issue of the New Shares to ECE Nolans is not fair but reasonable.

As set out in this document, Arafura will hold an Extraordinary General Meeting on Thursday, 18 October 2012 to provide shareholders with the opportunity to vote on the ECE transaction. Details of the meeting are included in the Notice of Extraordinary General Meeting accompanying this document.

I urge you to support the resolution and I look forward to seeing you at the meeting if you are able to attend.

Yours sincerely

Ian Kowalick
Chairman

Summary of Key Information

On the 19th of June 2012, Arafura announced to the market that it has executed a Letter of Intent ("LOI") with its major shareholder, ECE Nolans Investment Company Proprietary Limited ("ECE") whereby ECE will subscribe for 45,266,500 shares at an issue price of A$0.22 per share, to provide approximately A$9.96 million in funding to the Company. The placement was struck to be made at a 10% premium over the Company's last trading day's closing price and 15 day VWAP of A$0.20 prior to the announcement on 19 June 2012. On 30 August 2012, the 2012 Share Subscription Agreement was entered into by Arafura and ECE Nolans. The principal effect of the 2012 Share Subscription Agreement is to more formally and definitively confirm the mutual commitments for the placement of New Shares to ECE in more precision and detail. The terms of the 2012 Share Subscription Agreement replaced and superseded the LOI. The key terms and conditions of the 2012 Share Subscription Agreement are summarised in Annexure A.

The subscription of shares under the 2012 Share Subscription Agreement will increase ECE's shareholding ownership and voting power by a maximum of 8.59% to a total maximum 24.86% of issued capital, the same as its initial investment in 2009. The 2012 Share Subscription Agreement is subject to shareholder approval and regulatory approvals in both the People's Republic of China and Australia.

The Independent Directors of Arafura recommend to shareholders to vote in favour of the placement to ECE to ensure the Company strengthens its financial position to progress its feasibility study and to avoid alternative financing outcomes that are more dilutionary/discounted to the Company and its shareholders.

Key Reasons Why You Should Support the ECE Transaction

1. Arafura will receive a cash injection of $9.96 million

Arafura will receive (subject to Shareholder, FIRB and other regulatory approvals) approximately $9.96 million in cash from the share placement to ECE Nolans. The increased cash backing enables Arafura to progress its feasibility study on the Nolans Rare Earths Project.

2. Arafura and ECE will continue to seek potential synergies from the partnership

ECE Nolans is a well funded and long term strategic partner with significant experience in mineral exploration, development and mining. ECE have a number of resource projects in China and other parts of the world.

The ECE Transaction allows Arafura to be introduced to parties capable of doing technical reviews ultimately aiming to reduce capital and operating expenditure requirements for the Nolans Rare Earths Project.

3. Secures a platform for future growth

ECE is committed to the long-term development of Arafura's assets and to the future growth of Arafura. Arafura Shareholders will benefit from the support provided by ECE Nolans by retaining ownership of 75.14% of the expanded shareholder base.

4. Attractive funding source

The Arafura Directors have explored other funding opportunities and believe the placements to ECE Nolans is the best available funding source in the current difficult capital markets environment.

The placement will be made at a 10% premium to the Company's last trading day's closing price prior to the initial notice of the announcement on the 19th of June 2012 and 15 day Volume Weighted Average Price ("VWAP") of $0.20.

5. Independent expert opinion

The Independent Expert has concluded that the ECE Transaction is not fair but reasonable. See Annexure B for further details.

6. The Independent Directors of Arafura recommend that Shareholders vote in favour of the placement

All of Arafura's Independent Directors (Ian Kowalick and Chris Tonkin) recommend that Shareholders vote in favour of the transaction with ECE.

Non-Executive Directors Shasha Lu and Alex Losada-Calderon have decided not to provide a Directors recommendation to Shareholders given their relationship with ECE.

Arafura Resources Limited

ABN 22 080 933 455

Notice of Extraordinary General Meeting

Notice is given that an extraordinary general meeting of shareholders of Arafura will be held at, **The Duxton Hotel, 1 St Georges Terrace, Perth on 18 October 2012 at 2.30 pm WST.**

Agenda

Business

Resolution 1 – Approval of Share Issue

Subject to FIRB Approval, to consider, and if thought fit, to pass the following resolution as an ordinary resolution:

"That, for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for the Company to issue and allot 45,266,500 Shares to ECE Nolans Investment Company Pty Ltd on the terms set out in the Explanatory Memorandum accompanying this Notice and for the acquisition of a relevant interest (as defined in the Corporations Act 2001) in the Company's voting shares by the entities specified in, and in the manner set out in, the Explanatory Memorandum accompanying this Notice."

By Order of the Board

Dated this 13th day of September 2012

Gavin Lockyer
Company Secretary

Voting Exclusion

Resolution 1 - No votes may be cast on Resolution 1 by ECE Nolans Investment Company Pty Ltd and its associates.

Undirected Proxies

Resolution 1 - The Chairman intends to vote undirected proxies in favour of the resolution.

Explanatory Memorandum

Shareholders are referred to the Explanatory Memorandum accompanying and forming part of this Notice.

Capitalised terms which are not defined in this Notice and Explanatory Memorandum are defined in the Glossary of Terms section (section 11).

Entitlement to vote

Snapshot date

It has been determined that in accordance with regulation 7.11.37 of the *Corporations Regulations 2001* (Cth), for the purposes of the Extraordinary General Meeting, Arafura Shares will be taken to be held by the persons who are the registered holders at **5.00 pm WST on 17 October 2012** Accordingly, Arafura Share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the meeting.

How to vote

You may vote by attending the meeting in person, by proxy or by authorised representative.

Voting in person

To vote in person, please attend the meeting on the date and at the place set out above. The meeting will commence at **2.30 pm WST on Thursday, 18 October 2012.**

Voting by Proxy

A shareholder entitled to attend and vote has a right to appoint a proxy to attend and vote instead of the shareholder. A proxy need not be a shareholder and can be either an individual or a body corporate. If a shareholder appoints a body corporate as a proxy, that body corporate will need to ensure that it:

- appoints an individual as its corporate representative to exercise its powers at the meeting, in accordance with section 250D of the Act; and
- provides satisfactory evidence of the appointment of its corporate representative.

If such evidence is not received, then the body corporate (through its representative) will not be permitted to act as a proxy.

A shareholder that is entitled to cast 2 or more votes may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If no proportion or number is specified, each proxy may exercise half of the shareholder's votes.

Where the Proxy Form is executed under power of attorney, the power of attorney must be lodged in like manner as the Proxy Form.

A Proxy Form accompanies this Notice and to be effective must be received by Arafura by no later than **2.30 pm WST on Friday, 16 October 2012** (Proxy Forms received after that time will be invalid). Proxy Forms must be received by Arafura before that time via any of the following methods:

In Person: Arafura Resources Limited, Level 5, 16 St George's Terrace, Perth WA 6000

By Post: Arafura Resources Limited, PO Box 5773, St Georges Tce, Perth, WA 6831

By Facsimile:

(within Australia) (08) 9221 7966

(outside Australia) +61 8 9221 7966

Explanatory Memorandum

The Notice, Explanatory Memorandum, Independent Expert's Report and Proxy Form are all important documents. They should be read carefully in their entirety before you make a decision on how to vote at the Meeting.

If you have any questions regarding the matters set out in the documents, please contact Arafura, your stockbroker or other professional adviser.

Key Dates

Date of this Explanatory Memorandum	18 September 2012
Proxy Form to be received by no later than	2.30 pm WST, 16 October 2012
Snapshot Date for Entitlement to Vote	5.00 pm WST, 17 October 2012
Arafura Shareholders Meeting	2.30 pm WST, 18 October 2012

Important information

Purpose of this Explanatory Memorandum

This Explanatory Memorandum has been prepared for the shareholders of Arafura in connection with the Extraordinary General Meeting of the Company to be held on Thursday, 18 October 2012. The purpose of this Explanatory Memorandum is to provide Shareholders with information that the Board believes to be material to Shareholders in deciding whether or not to approve the Resolution detailed in the Notice.

This Explanatory Memorandum does not take into account the individual investment objectives, financial situation and needs of individual Shareholders or any other person. Accordingly, it should not be relied on solely in determining how to vote on the Resolution.

Forward looking statements

Certain statements in this Explanatory Memorandum relate to the future. These statements reflect views only as of the date of this Explanatory Memorandum. While Arafura believes that the expectations reflected in the forward looking statements are reasonable, neither Arafura nor any other person gives any representation, assurance or guarantee that the occurrence of an event expressed or implied in any forward looking statements in this Explanatory Memorandum will actually occur.

Notice to persons outside Australia

This Explanatory Memorandum has been prepared in accordance with Australian laws, disclosure requirements and accounting standards. These laws, disclosure requirements and accounting standards may be different to those in other countries.

Disclaimer

No person is authorised to give any information or make any representation in connection with the ECE Transaction which is not contained in this Explanatory Memorandum. Any information or representation not contained in this Explanatory Memorandum may not be relied on as having been authorised by Arafura or the Board in connection with the ECE Transaction.

Responsibility for information

The information contained in this Explanatory Memorandum (except the Independent Expert's Report and information regarding ECE Nolans and its intentions) has been prepared by Arafura and is the responsibility of Arafura. ECE does not assume any responsibility for the accuracy or completeness of that information. Information concerning ECE Nolans and its intentions (in section 1) has been provided by ECE Nolans. None of Arafura, its associates or its advisers assumes any responsibility for the accuracy or completeness of that information.

BDO Kendalls has prepared the Independent Expert's Report and has consented to the inclusion of the report in this Explanatory Memorandum. BDO Kendalls takes responsibility for that report but is not responsible for any further information contained within this Explanatory Memorandum.

Shareholders are urged to read the Independent Expert's Report carefully to understand the scope of the report, the methodology of the assessment, the sources of information and the assumptions made.

ASX involvement

A copy of the Notice and Explanatory Memorandum has been lodged with ASX pursuant to the Listing Rules. Neither ASX nor any of its officers take any responsibility for the contents of the Notice and Explanatory Memorandum.

Definitions

Capitalised terms used in this Explanatory Memorandum are defined in the Glossary of Terms section (section 11).

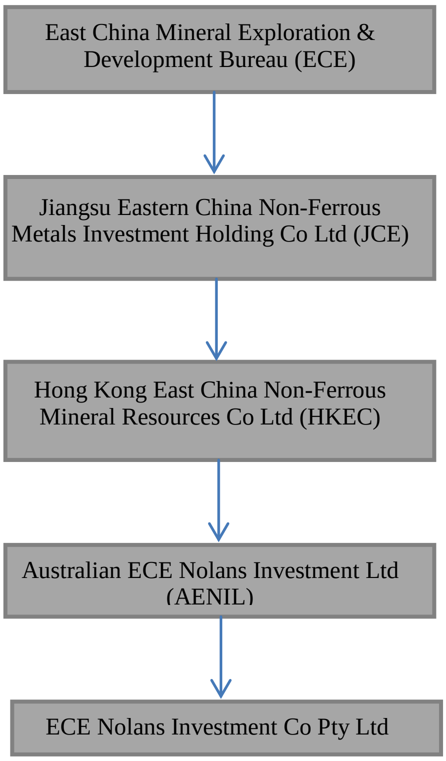
1 Overview of ECE and the Proposed Transaction

1.1 ECE Background and Transaction Overview

In 2009, Arafura entered into a strategic equity investment with a major Chinese mineral exploration, development and mining company, ECE, to assist Arafura with funding requirements and future project development, exploration and growth opportunities. ECE Nolans entered into the 2009 Share Subscription Agreement with Arafura and subscribed for equity in the Company under those arrangements. ECE Nolans has remained a major shareholder of Arafura ever since currently holding approximately 16.27% of the ordinary share capital of Arafura as at 30 June 2012.

As Arafura continues to progress the Nolans Rare Earths Project, ECE have showed continuing support by entering into a Letter of Intent for a further share subscription in Arafura in 2012 which has subsequently been replaced by the terms of a new 2012 Share Subscription Agreement entered into by ECE Nolans and Arafura as of 30 August 2012. A summary of the 2012 Share Subscription Agreement entered into between Arafura and ECE Nolans is set out in Annexure A. ECE has nominated ECE Nolans, a wholly owned subsidiary of ECE, and the party to the 2012 Share Subscription Agreement to subscribe for the Shares.

A diagram of the ECE Group Structure is provided below.



East China Mineral Exploration & Development Bureau ("ECE") was incorporated in 1955 in China and is a fully funded Chinese state owned exploration and development organisation whose Director General and Deputy Director Generals are appointed by the Jiangsu Provincial Government.

ECE is focussed on engaging in mineral and energy exploration and is permitted to carry out geological exploration and to conduct scientific research on major State classified projects.

1 Overview of ECE and the Proposed Transaction

The Senior Executives of ECE are:

- Director General: Shao Yi
- Deputy Director Generals: Cai Zheng, Xu Jiangrong, Xie Xingnan, Nie Qibo and Jiang nan

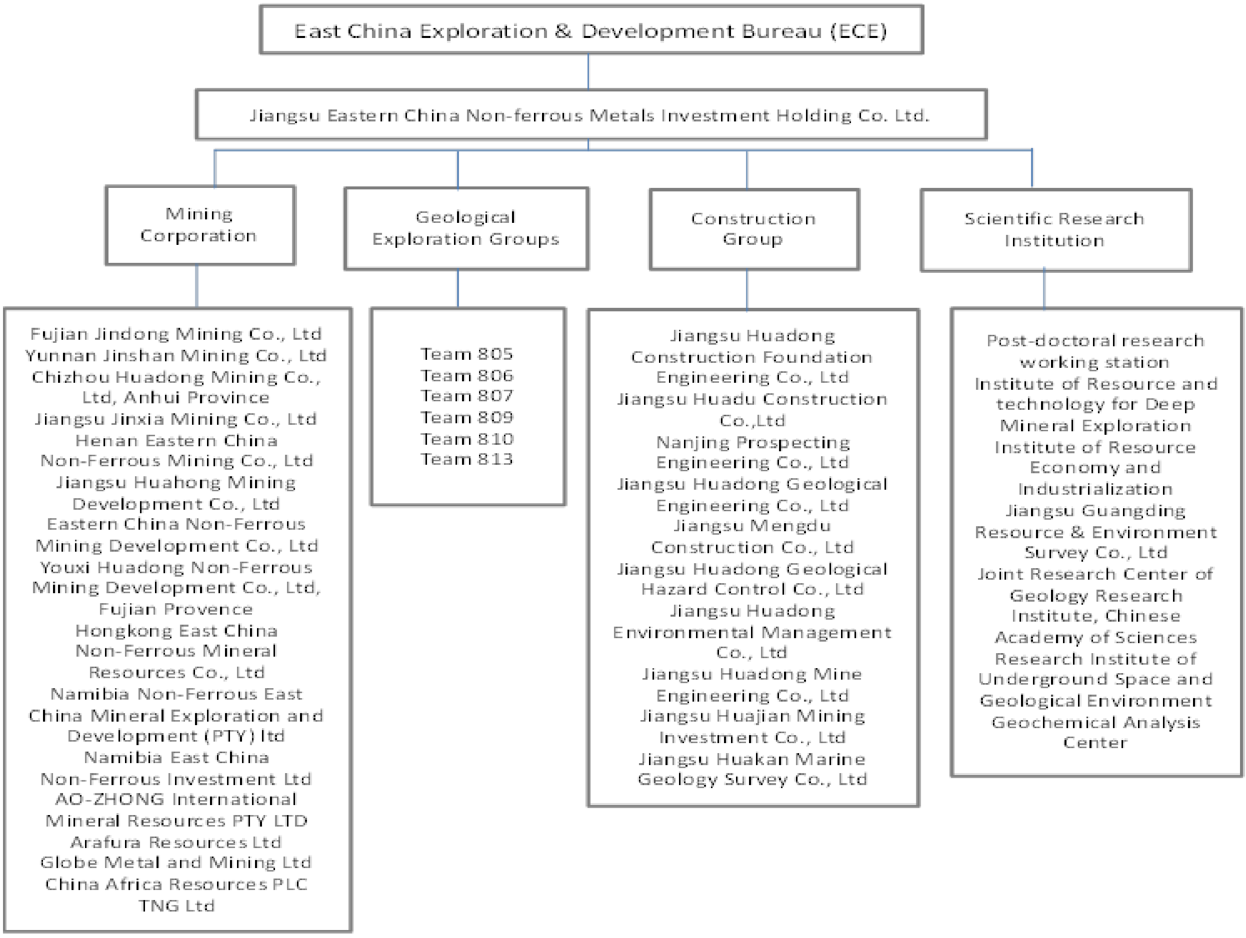
ECE has discovered more than 160 ore deposits in China with a potential value in excess of $10 billion. ECE has over 4,000 employees, 6 subsidiary geological exploration units, 7 scientific research institutions, a post-doctoral research station, a business research and development centre and 22 companies which specialise in the field of mining, engineering and drilling. ECE boasts outstanding qualifications in the field of exploration, hydrology, environmental geology, geophysical and geochemical exploration, remote sensing and geological engineering. With first-class technology and management experts, advanced exploration technology, significant mining and processing experience and strong financial capabilities, ECE is well positioned for foreign investment in mineral exploration and development.

ECE has the following major subsidiaries and associated companies in the ECE Group:

- 16 mining corporations in the field of mining and exploration;
- The geological exploration groups include 6 geological exploration units whose major activities are mineral exploration;
- The construction groups include 10 subsidiary companies and the major activities are engineering and drilling;
- The post-doctoral research working station and 7 scientific research institutions are engaged in research on geological and mining.

The ECE group structure is set out below:

1 Overview of ECE and the Proposed Transaction



ECE has several mines and refining operations including Youxi Jindong lead-zinc mine and refining operations, Yunnan Boka gold mine, and Anhui Matou copper-molybdenum mine.

Pursuant to the 2012 Share Subscription Agreement, Arafura will issue Shares to ECE Nolans in one single tranche, subject to various approvals being granted before the issue takes place. The Shares will comprise a maximum of 45,266,500 shares at a price of A$0.22 per share. This placement represents 8.75% of Arafura's issued capital. Assuming all approvals are given, ECE Nolans will revert back to their initial ownership percentage in Arafura of 24.86% as established in 2009, increasing from their current ownership of 16.27% (assuming no Options are exercised). As a result, under the Corporations Act, Section 611, item 7, Arafura's shareholders must approve this transaction.

The shares from this placement will rank equally (pari passu) with all other Fully Paid Ordinary shares in Arafura and hold the same voting rights/power. Arafura Shareholders can therefore expect a maximum increase in voting power of 8.75% to 24.86% to ECE. No share issues have been made to associates of ECE Nolans.

The share placement to ECE Nolans will raise approximately $9.96 million, providing Arafura with an important operational and funding boost. It will also assist to strengthen Arafura's cash position and help it to withstand the current tight global capital environment.

The Arafura Board also believes that ECE is a well funded strategic partner committed to the long term development of Arafura's assets. ECE has a wealth of knowledge and technology that will assist Arafura in the development of the Nolans Rare Earths Project.

1 Overview of ECE and the Proposed Transaction

Under the terms of the 2012 Share Subscription Agreement, the ECE Transaction is subject to a number of approvals and conditions including:

- Shareholder approval
- The approval of the FIRB
- All regulatory approvals necessary from the relevant Chinese regulatory authorities, which have at the date of this Explanatory Memorandum, been granted and announced by Arafura; and

Under the 2009 Share Subscription Agreement, ECE Nolans were entitled to nominate two persons to be Directors of Arafura. Ms Shasha Lu and Dr Alex Losada-Calderon were subsequently appointed. Under a new Memorandum of Understanding ("MOU") entered into in June 2012 between Arafura and ECE, the number of ECE Nominated Directors reduced to one unless total Directorship numbers (including the nominee Director) reaches or exceeds 7, ECE may then appoint more Directors in proportion to their shareholding

As a result of the above, Dr Alex Losada-Calderon is no longer a Nominee Director however the Board has requested he remains as a Non-Executive Director of the Company to ensure continuity.

Further details on the Transaction are set out elsewhere in this Explanatory Memorandum.

1.2 Implications if the Share Placement is not approved

If Arafura shareholders do not approve the placement of Shares or the Transaction does not complete because the 2012 Share Subscription Agreement is terminated or the conditions precedent to the 2012 Share Subscription Agreement (as set out in Annexure A) are not satisfied or waived by their respective due dates (as set out in Annexure A), then:

(a) Arafura will continue to operate as it did before the ECE Transaction, exploring alternatives to optimise its assets and remain financially viable; and

(b) ECE Nolans will hold 16.27% of Arafura's issued capital.

The Board recognises that monies raised from the issue to ECE Nolans assists in providing a level of funding for Arafura. However this amount will be insufficient to enable the Arafura business to continue in the longer term without additional capital over and above this amount.

Given the current difficult global financial markets and constrained borrowing conditions, the Arafura Directors believe the ECE Transaction represents the best option for Shareholders.

Further details on the risks associated with the ECE Transaction not proceeding are set out in sections 1.4 and 6 below.

1 Overview of ECE and the Proposed Transaction

1.3 Independent Expert's Report

Summary of Expert's Opinion

BDO Corporate Finance (WA) Pty Ltd has assessed the value of an Arafura Share to be in the range of $0.243 to $0.404 per Share with a preferred value of $0.323. As the cash consideration payable by ECE Nolans for the New Shares is $0.22 per Share, the Independent Expert's view is the placement of the New Shares is not fair. However, BDO consider the placement of the New Shares to be reasonable because the advantages to Shareholders are greater than the disadvantages. BDO state that Arafura requires significant funds in order to complete the feasibility study currently underway for the Nolans Project. The Company previously undertook a non-renounceable rights issue in order to raise part of these funds but in November 2011 cancelled this and refunded monies to all shareholders who took up their entitlements as a result of the share price falling significantly. BDO note that ECE can assist in providing, in part, these funds to Arafura in order for the Company to continue the feasibility study.

Given this, the Independent Directors believe they are justified in recommending that Shareholders vote in favour of the ECE Transaction. Full details of the Independent Expert's Report can be found at Annexure B.

1.4 Risks if the Resolution is not approved

If the ECE Transaction is not approved by Shareholders, Arafura will need to consider other funding alternatives. In the current capital market, this would likely result in any raising being done at a significant discount to the current market price to Arafura shares and a significant dilution to existing Shareholders.

Further, in the absence of alternative capital raisings, Arafura may need to sell one or more of its assets.

1.5 Use of funds raised from the ECE Transaction

If the Resolution is approved and all necessary approvals are granted and the ECE Transaction proceeds, it would put Arafura in a stronger financial position with substantial resources and opportunities to progress the feasibility on the Nolans Rare Earths Project. The funds raised from the share placements to ECE Nolans will be applied towards:

- Progressing the feasibility study in relation to the Nolans Rare Earths Project;

  AND

- Working capital purposes.

1 Overview of ECE and the Proposed Transaction

1.6 Continued operations and strategic direction

Based on information available at present, ECE currently intends that Arafura's operations will continue substantially in their current form and in a manner consistent with Arafura's existing strategy and operation plan to progress the feasibility study on the Nolans Rare Earths Project.

On the basis of information currently known to it, ECE's current intentions are:

- To be a strategic shareholder in Arafura through its wholly owned subsidiary ECE Nolans and to use relationships in their relevant areas of expertise to assist the future development of Arafura's business, without gaining control of the company (RG74.26);

- Not to change the business of Arafura, nor transfer assets between ECE Nolans and Arafura or their associates, nor redeploy fixed assets of Arafura nor change Arafura's existing policies in relation to financial matters or dividend distribution;

- To inject further capital into Arafura on terms and conditions to be agreed with Arafura and to assist with fundraising requirements; and

- Not to change the employment of any present employee of Arafura;

1.7 Director recommendations

The Independent Directors, Ian Kowalick and Chris Tonkin unanimously recommend that Shareholders vote in favour of Resolution 1 (and intend to do so in respect of their own Shares) for the reasons outlined in section 2.

Non-Executive Directors Shasha Lu and Alex Losada-Calderon have decided not to provide a Directors recommendation to Shareholders given their relationship with ECE.

2 Rationale for the ECE Transaction

2.1 Arafura will receive a cash injection of $9.96 million

As at 30 June 2012, Arafura held cash of $19.5 million and had no (and continues to have) no corporate debt (other than borrowings of $25,290 relating to hire purchase financing).

If the Resolution is approved, the total proceeds from the Share placement to ECE Nolans will result in an approximate $9.96 million cash injection into Arafura. The increased cash backing provided by the share placement will strengthen Arafura's ability to weather the current difficult capital raising environment and enable Arafura to progress its bankable feasibility study on the Nolans Rare Earths Project. Arafura will also continue to remain free of corporate debt.

2.2 ECE is a well funded and experienced partner

ECE is a well funded, long term strategic partner with significant mining, processing and marketing experience. It is a major mineral exploration, development and mining group which has a number of resource projects in China and other parts of the world.

2.3 Arafura and ECE will seek to identify potential technical synergies from the partnership

The ECE Transaction allows Arafura to be introduced to parties capable of doing technical reviews ultimately aiming to reduce capital and operating expenditure requirements for the Nolans Rare Earths Project.

2.4 Secures a platform for future growth

ECE is committed to the long-term development of Arafura's assets and to the future growth of Arafura. Arafura Shareholders will benefit from the support provided by ECE by retaining ownership of 75.14% of the expanded shareholder base.

2.5 Attractive funding source

The Arafura Directors have extensively explored other funding opportunities. The onset of the global financial crisis has had a material impact on the demand for the shares in small to mid cap resource companies. The Arafura Directors believe the placement to ECE Nolans, which at the time of the announcement dated 19 June 2012, was made at a 10% premium to the 15 day Volume Weighted Average Price, is the best available funding source in the current difficult capital markets environment.

2.6 Independent Experts Report

The Independent Expert has concluded that the ECE Transaction is not fair but reasonable. See Annexure B for further details.

2.7 The Independent Directors of Arafura unanimously recommend that Shareholders vote in favour of the placement

All of Arafura's Independent Directors (Ian Kowalick and Chris Tonkin) recommend that Shareholders vote in favour of the transaction with ECE.

Shasha Lu and Alex Losada-Calderon have decided not to provide a Directors recommendation to Shareholders given their relationship with ECE.

3 Impact on Arafura's Financial Position and Capital Structure

3.1 Impact of ECE Transaction on Arafura's financial position

Set out below is a pro forma consolidated balance sheet of Arafura (unaudited) taking into account the receipt of the monies from ECE. The pro forma balance sheet illustrates the effect of the transaction as if the transaction had occurred on 30 June 2012.

Arafura Limited (unaudited) Proforma Balance Sheet as at 30 June 2012

	Unaudited 30-Jun-12 $	**Adjustments**	**Pro-forma 30-Jun-12 $**
Current Assets			
Cash and cash equivalents	19,545,603	9,958,630	29,504,233
Trade and other receivables	531,876		531,876
Assets classified as held for sale	-		-
Total Current Assets	**20,077,479**		**30,036,109**
Non-current assets			
Trade and other receivables	2,000,000		2,000,000
Property plant and equipment	362,011		362,011
Deferred exploration and evaluation costs	125,475,008		125,475,008
Total Non-current Assets	**127,837,019**		**127,837,019**
TOTAL ASSETS	**147,914,498**		**157,873,128**
Current liabilities			
Borrowings	9,260		9,260
Trade and other payables	4,994,842		4,994,842
Total Current Liabilities	**5,004,102**		**5,004,102**
Non-current Liabilities			
Borrowings	16,030		16,030
Trade and other payables	64,259		64,259
Total Non-current Liabilities	**80,289**		**80,289**
TOTAL LIABILITIES	**5,084,391**		**5,084,391**
NET ASSETS	**142,830,107**		**152,788,737**
Equity			
Contributed equity	184,363,890	9,958,630	194,322,520
Reserves	10,953,178		10,953,178
Accumulated profit (losses)	(52,486,961)		(52,486,961)
TOTAL EQUITY	**142,830,107**		**152,788,737**
Notes			
Cash and cash equivalents			
Cash at bank and in hand	19,545,603		19,545,603
Pro-forma adjustments			
Proceeds pro-forma adjustments			9,958,630
Share placement costs to ECE*			(100,000)
			29,404,233
*Estimate only			

3 Impact on Arafura's Financial Position and Capital Structure

3.2 Capital structure post completion

As at the date of this Explanatory Memorandum, Arafura has 396,004,144 Shares on issue of which 64,433,333 Shares are already held by ECE Nolans, being 16.27% of the total issued capital.

Arafura has on issue the following unquoted options:

Number	Expiry Date	Exercise Price
1,100,000	31-Dec-12	$1.19
2,700,000	31-Dec-13	$0.85
850,000	20-Jul-13	$0.75
750,000	31-Aug-13	$0.98
750,000	14-Sep-13	$1.08
1,100,000	26-Nov-13	$1.54
1,400,000	16-Jul-14	$0.96
700,000	31-Dec-14	$0.81
2,150,000	24-Nov-14	$0.70
11,500,000		

The capital structure and voting power of ECE Nolans after completion of the issue of the New Shares is set out below:

ECE Nolans' interest - assumes no ARU options are exercised					
	ARU Shares on Issue	**Shares to be issued to ECE Nolans**	**Total Shares held by ECE Nolans**	**Total ARU Shares**	**ECE Nolans' interest**
Placement	396,004,144	45,266,500	**109,699,833**	441,270,644	24.86%

ECE Nolans' interest - assumes all ARU options are exercised					
	ARU Shares on Issue	**Shares to be issued to ECE Nolans**	**Total Shares held by ECE Nolans**	**Total ARU Shares**	**ECE Nolans' interest**
Placement*	407,504,144	45,266,500	**109,699,833**	452,770,644	24.22%

*Assumes full exercise of 18,035,000 ARU options prior to the issue of the New Shares to ECE Nolans

4 Directors and Management

4.1 Current Directors

As at the date of this report, the Arafura Board is currently comprised of the following Directors:

- Mr Ian Kowalick (Non-Executive Chairman);
- Mr Chris Tonkin (Chief Executive Officer and Director)
- Ms Lu Shasha (Non-Executive Director)
- Dr Alex Losada Calderon (Non-Executive Director)

4.2 Proposed Changes to Directors

Under the 2009 Share Subscription Agreement, ECE Nolans were entitled to nominate two persons to be Directors of Arafura. Ms Shasha Lu and Dr Alex Losada-Calderon were subsequently appointed. Under a new Memorandum of Understanding ("MOU") entered into in June 2012 between Arafura and ECE, the number of ECE Nominated Directors reduced to one unless total Directorship numbers (including the nominee Director) reaches or exceeds 7, ECE may then appoint more Directors in proportion to their shareholding

As a result of the above, Dr Alex Losada-Calderon is no longer a Nominee Director however the Board has requested he remains as a Non-Executive Director of the Company to ensure continuity.

5 Corporate Governance

5.1 Director Protocols

The Board aspires to the highest standards of corporate governance and applies rigorous procedures to deal with actual or potential conflict situations.

The Board's Code of Conduct summarises the procedures applied to manage conflicts of interest. It states that Directors must not involve themselves in situations where there is a real or apparent conflict of interest between them as individuals and the interests of Arafura. Where a real or apparent conflict of interest arises, the Director should bring the matter to the attention of the Chairman.

Further, under the Director's Disclosure Obligations, Directors will advise the Company Secretary promptly of any changes to relevant interests such as holdings in securities.

5.2 Corporate Governance and Board Independence post completion of the ECE Transaction

ECE Nolans, ECE, subsidiaries of ECE and/or the nominee directors must comply with all applicable laws and the Listing Rules in relation to any dealings between Arafura and ECE Nolans including:

- Seeking Shareholder approval for transactions between Arafura and ECE Nolans, ECE and subsidiaries of ECE (or its associates) where required by any applicable law or the Listing Rules;
- Complying with applicable laws relating to conflicts of interest for directors and directors' exclusion from voting in relation to matters considered by the Board; and
- In the case of ECE Nolan's nominee directors, complying with their legal obligations to act in good faith, in the best interests of Arafura and for proper purposes, and to have regard to the interests of the Shareholders and Arafura as a whole.

Any transactions in which ECE Nolans, ECE, subsidiaries of ECE and/or a nominee director (or any associate of ECE) has an interest will be on arm's length commercial terms (including any potential off-take arrangements for Arafura's Nolans Rare Earths Project) where required by legislation or the Listing Rules will be approved by Shareholders.

The transactions will also be approved by the independent Directors of Arafura not associated with ECE Nolans in accordance with any applicable laws relating to conflicts of interest and exclusion of directors from voting.

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6 Key Risks

6.1 General Risks

Investors should be aware of the following key risks that may affect the future operating and financial performance of Arafura and the value of Shares. These risks include general risks associated with any form of business and specific risks associated with Arafura's business.

(a) Economic conditions

Adverse changes in economic conditions such as interest rates, exchange rates, inflation, government policy, international economic conditions and employment rates amongst others are outside Arafura's control and have the potential to have an adverse impact on Arafura and its operations.

(b) Stock market fluctuations

There are risks associated with any investment in a company listed on the ASX. The value of Shares may rise above or below the current Share price depending on the financial and operating performance of Arafura and external factors over which Arafura and the Directors have no control.

These external factors include:

- Economic conditions in Australia and overseas which may have a negative impact on equity capital markets;
- Changing investor sentiment in the local and international stock markets;
- Changes in domestic or international fiscal, monetary, regulatory and other government policies; and
- Developments and general conditions in the markets in which Arafura proposes to operate and which may impact on the future value and pricing of shares.

(c) Regulatory risks

Arafura is exposed to any changes in the regulatory conditions under which it operates in Australia.

Such regulatory changes can include, for instance, changes in:

- Taxation laws and policies;
- Accounting laws, policies, standards and practises;
- Environmental laws and regulations that may impact upon the operations of Arafura; and
- Employment laws and regulations, including laws and regulations relating to occupational health and safety.

6.2 Arafura specific risks

(a) Exchange Rates

A significant portion of Arafura's expenditure is denominated in US currency and movements in currency exchange rates may affect cash flows, profitability and costs. It is not possible to accurately predict future movements in exchange rates.

(b) Increased or new competition

Arafura faces competition in its business. To the extent that there are new entrants or changes in strategy by existing competitors, Arafura may lose market share with consequent adverse effects upon operating and financial performance.

(c) Environmental risks

Extensive national environmental laws and regulations affect Arafura. The laws and regulations set various standards which regulate certain aspects of health and environment quality and provide penalties or other remedies for any violation of standards.

There is a risk that significant damages or penalties might be imposed on Arafura. Arafura minimises these risks by having processes in place to manage compliance with environmental laws and regulations in Australia.

(d) Reliance on key personnel

The responsibility of overseeing day-to-day operations and the strategic management of Arafura is concentrated amongst a small number

6 Key Risks

of key employees. While it is not currently anticipated, one or any number of these key employees may cease employment with Arafura. The loss of any such key employees of Arafura could have the potential to have a detrimental impact on Arafura until the skills that are lost are adequately replaced.

(e) **Occupational health and safety**

Arafura manages certain risks associated with the occupational health and safety of its employees. Arafura takes out insurance to cover these risks within certain parameters. However it is possible for injuries and/or incidents to occur which may result in expenses in excess of the amount insured or provided for with a resultant impact on Arafura's earnings.

(f) **Resource estimates**

Arafura has made estimates of its resources based on relevant reporting codes, where required, and judgments based on knowledge, skills and industry experience. However, there is no guarantee that estimates will prove to be accurate. Actual mining, if and when it occurs, may materially differ from forecasts and estimates due to further findings and results not previously known.

(g) **Operating risks**

In common with other enterprises in the minerals and mining industry, Arafura's rare earths and other mineral exploration activities are subject to conditions beyond Arafura's control that can increase costs. These conditions include, but are not limited to changes in legislative requirements, market conditions, government policies, exchange rates, abnormal or severe weather or climatic conditions, natural disasters; unexpected maintenance or technical problems, key equipment failures and variations in geological conditions.

6.3 Risks associated with the ECE Transaction

There are a number of risks associated with the ECE Transaction which Shareholders should be aware of if the Transaction is approved or it fails to receive Shareholder or requisite regulatory approvals.

Risks and implications associated with the approval of the Resolution include amongst other things, changes in corporate governance and control and regulations under the Foreign Acquisitions and Takeovers Act 1975 (Cth). Details of these risks and implications are set out in section 7.1.

If on the other hand, the ECE Transaction is not approved or does not complete, these risks are addressed in section 7.2 which includes the impact on Arafura's financial position.

Any future participation by ECE Nolans, ECE or its related entities in capital raisings undertaken by Arafura will be subject to Chinese regulatory approval and FIRB approval. Such approvals are subject to the discretion of the applicable government or government officials. No assurance can be given that ECE Nolans will be successful in obtaining any or all of the various approvals, licences and permits or maintaining such authorisations in full force and effect without modification or revocation.

7 Key implications and risks of the ECE Transaction

7.1 Key implications and risks if Resolution 1 is approved

(a) **Impact on control and governance**

Currently ECE Nolans holds 64,433,333 Shares in Arafura. If Resolution 1 is approved by Shareholders (subject to FIRB and other regulatory approvals) and the ECE Transaction proceeds, Arafura will issue a further 45,266,500 Shares to ECE Nolans. This will increase the total issued Shares in Arafura to 109,699,833 and ECE Nolans will own 24.86% of those Shares (assuming no Options are exercised).

There is a risk that ECE Nolans could use its voting power on the Board to pursue interests which are different to the interests of current Shareholders.

However, ECE Nolans, ECE, subsidiaries of ECE and the nominee Directors must comply with all applicable laws and the Listing Rules in relation to any dealings between Arafura and ECE Nolans (see sections 1 and 5 of this Explanatory Memorandum for further information). Accordingly, any transactions in which ECE Nolans, ECE, subsidiaries of ECE and/or any nominee director (or any associate) has an interest will be on arm's length commercial terms or will be approved by independent Shareholders, where required by legislation or the Listing Rules. In addition, ECE Nolans, ECE, subsidiaries of ECE and the nominee directors who have a material interest in any proposed contract, must not be present at any Board meeting to consider the matter and must abstain from voting on the matter. Accordingly, only the independent Directors (under the proposed new Board structure) will be eligible to vote on future matters which ECE Nolans, ECE, subsidiaries of ECE and the nominee directors, may have a material interest in. ECE Nolans' intentions with respect to Arafura are set out in section 1 of this Explanatory Memorandum.

(b) **Transaction may not proceed even if Shareholders approve Resolution 1**

Even if Resolution 1 is approved, the ECE Transaction will only be finalised if the other conditions precedent set out in the Share Subscription Agreement are satisfied or waived. These conditions precedent are summarised in Annexure A and include but are not limited to obtaining FIRB approval and Chinese regulatory approvals.

The application for FIRB approval was submitted by ECE Nolans on 31 August 2012 and Arafura expects that the Federal Treasurer will confirm in writing whether there are objections under the Australian Government's Foreign Investment Policy to the acquisition of the New Shares in accordance with the 2012 Share Subscription Agreement prior to the EGM in October.

Arafura is not currently aware of any information which may cause the conditions precedent to be breached or unfulfilled. However, there is a risk that these conditions precedent will be unfulfilled due to circumstances outside its control.

The 2012 Share Subscription Agreement requires Settlement (and the allotment and issue of the New Shares) to take place within 5 business days after the satisfaction (or waiver) of the conditions precedent.

If the conditions precedent are not satisfied or waived or the 2012 Share Subscription Agreement is terminated, ECE Nolans will hold 64,433,333 Shares in Arafura. As no escrow applies to their shareholding, ECE Nolans is under no obligation to retain their Shares and may sell down part or all of its interest in Arafura.

(c) **Use of funds raised from the ECE Transaction**

If the Resolution is approved and the ECE Transaction proceeds, it would put Arafura in a stronger financial position enabling the Company to better weather

7 Key implications and risks of the ECE Transaction

a sustained period of economic uncertainty and to progress its feasibility study of the Nolans Rare Earths Project. Further details on the use of funds are set out in section 1.

7.2 Key implications and risks if Resolution 1 is not approved

(a) **Arafura's financial position**

Shareholders should also be aware that if Resolution 1 is not passed, Arafura will continue to operate as it did prior to the ECE Transaction, exploring all available alternatives to optimise its assets and remain financially viable. However, given the current difficult global financial markets and constrained borrowing conditions the Arafura Directors believe the ECE Transaction represents the best option for Shareholders.

In particular, if the ECE Transaction is not implemented Arafura will need to consider other funding alternatives.

Further, in the absence of alternative capital raisings, Arafura may need to sell one or more of its assets (other than in the ordinary course of business and at distressed values or values different to those in its financial statements).

(b) **Loss of substantial holder**

ECE Nolans is under no obligation to retain their Shares and may sell down part or all of its interest in Arafura.

8 Independent Expert's Report

The Independent Expert's Report assesses whether the issue of the Shares to ECE Nolans is fair and reasonable to Shareholders who are not associated with Arafura. This assessment is designed to assist all Shareholders in reaching a decision to vote on Resolution 1.

The Independent Expert's Report has been provided by BDO Kendalls. The Independent Expert has concluded that the issue of the New Shares is not fair but reasonable to Shareholders.

It is recommended that Shareholders read the Independent Expert's Report in full as set out in Annexure B.

9 Directors Recommendations

9.1 Recommendations

All of Arafura's Independent Directors (Ian Kowalick and Chris Tonkin) recommend that Shareholders vote in favour of the transaction with ECE.

Shasha Lu and Alex Losada-Calderon have decided not to provide a Directors recommendation to Shareholders given their relationship with ECE.

9.2 Directors' Voting Intentions

Ian Kowalick intends to vote his Shares in favour of Resolution 1 for the reasons outlined in Section 1.

9.3 Directors' Interests in Arafura Shares

As at 30 June 2012, the Directors had the following interests in Shares and Options:

Director	Number of Shares	Number of Options
Ian Kowalick	550,000	-
Chris Tonkin	-	750,000
Shasha Lu	-	1,500,000
Alex Losada-Calderon	-	1,500,000

The Directors do not have any material personal interest in the outcome of the Resolution other than their interests arising solely in their capacity as Shareholders.

As disclosed, there have been no acquisitions or disposals of Shares or Options by any Director since 1 July 2012 to the date of this Notice.

Any subsequent acquisitions or disposals by Directors will be announced to the ASX in accordance with legal requirements.

10 Additional information relating to the Resolution

10.1 Resolution 1 – Share Issue

Corporations Act Requirements

Section 606(1) of the Act provides that a person must not acquire a relevant interest in issued voting shares of a listed company if the person acquiring the interest does so through a transaction in relation to the securities entered into by or on behalf of the person and, because of the transaction, that person's or someone else's voting power in the listed company increases:

- From 20% or below to more than 20%; or
- From a starting point that is above 20% and below 90%.

Under section 608(1) of the Act, a person has a relevant interest in securities if they are the holder of the securities, have power to exercise, or control the exercise of, a right to vote attached to the securities or have power to dispose of, or control the exercise of a power to dispose of, the securities. It does not matter how remote the relevant interest is, or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

Under section 608(3) of the Act, a person with voting power above 20% in a body corporate or control of the body corporate is deemed to have a relevant interest in any securities held by that body corporate.

Each of ECE, JEC, HKEC and AENIL will have a relevant interest in the New Shares which Arafura proposes to issue to ECE Nolans. ECE Nolans' relevant interest arises by virtue of being the registered holder of the New Shares. AENIL's relevant interest arises by virtue of it holding 100% of the shares in ECE Nolans. HKEC's relevant interest arises by virtue of it holding 100% of the shares in AENIL. JEC's relevant interest arises by virtue of it holding 100% of the shares in HKEC. ECE's relevant interest arises by virtue of it 100% of the shares in JEC.

Accordingly, if the New Shares are issued to ECE Nolans as contemplated by Resolution 1, each of ECE, JEC, HKEC and AENIL's voting power in Arafura will increase from 16.27% to 24.86 % (assuming no Options are exercised).

Section 606(1A) of the Act provides that a person may acquire a relevant interest under one of the exceptions set out in section 611 of the Act without contravening section 606(1). Under item 7 of section 611, an acquisition that was approved previously by a resolution passed at a general meeting of the company in which the acquisition is made is exempt from section 606(1).

Accordingly, Resolution 1 seeks Shareholder approval for the purposes of item 7 of section 611 of the Act for the New Shares to be allotted and issued to ECE Nolans pursuant to the Share Subscription Agreement between Arafura and ECE Nolans, the effect of which is that each of ECE, JEC, HKEC and AENIL's voting power in the Company will be increased from 16.27% to 24.86% (assuming no Options are exercised) by virtue of each of them having a relevant interest in the New Shares issued to ECE Nolans.

Item 7 of section 611 requires the following information to be provided to Shareholders:

(i) *The identity of the person proposing to make the acquisition and their associates*

The New Shares will be acquired by ECE Nolans, a wholly owned subsidiary of ECE. ECE will have a relevant interest in the New Shares acquired by ECE Nolans. The "associates" of ECE Nolans are each of the entities contained in the ECE group structure chart at section 1.1.

10 Additional information relating to the Resolution

(ii) *The maximum extent of the increase in that person's voting power in the company that would result from the acquisition*

ECE Nolans currently holds 64,433,333 Shares in Arafura which represents a 16.27% voting power in Arafura. If Shareholders approve Resolution 1, ECE Nolans will have a 24.86% voting power in Arafura after the issue of the New Shares, being an increase of a 8.59% voting power from its current holding.

(iii) *The voting power that person would have as a result of the acquisition*

If the New Shares are issued to ECE Nolans, it will have voting power of 24.86%.

(iv) *The maximum extent of the increase in the voting power of each of that person's associates that would result from the acquisition*

Each of ECE, JEC, HKEC and AENIL will have a relevant interest in the New Shares issued to ECE Nolans by virtue of their ability to control ECE Nolans and accordingly, the issue of New Shares to ECE Nolans will increase ECE's, JEC's, HKEC's and AENIL's voting power in Arafura from 16.27% to 24.86% (assuming no Options are exercised).

ECE Nolans' associates do not have a relevant interest in Shares other than from securities to be acquired by ECE Nolans itself under the Transaction.

(v) *The voting power that each of that person's associates would have as a result of the acquisition*

As stated above, each of ECE, JEC, HKEC and AENIL will have a relevant interest in the New Shares issued to ECE Nolans and will upon the issue of the New Shares to ECE Nolans each have voting power in Arafura of 24.86% (assuming no Options are exercised).

ECE Nolans' associates do not have a relevant interest in Shares other than from securities to be acquired by ECE Nolans itself under the Transaction.

Additional Information for Shareholders

ASIC Regulatory Guide 74: Acquisitions agreed to by shareholders requires that the following information be provided to enable Shareholders to make an informed decision on the Resolution:

- *An explanation of the reasons for any proposed allotment*

  An explanation of the rationale for the ECE Transaction is set out in section 2 of this Explanatory Memorandum.

- *When the allotment is to be made or the purchase is to be completed.*

  If Shareholders approve Resolution 1, and assuming all other conditions precedent under the Subscription Agreement are satisfied or waived, the issue of the New Shares to ECE Nolans will take place within 5 business days after the satisfaction or waiver of the conditions precedent.

- *Particulars of the terms of the proposed allotment or purchase*

10 Additional information relating to the Resolution

The particulars of the ECE Transaction are set out in section 1 of this Explanatory Memorandum. A summary of the Share Subscription Agreement is set out in Annexure A to this Explanatory Memorandum.

- *Particulars of any other contract or proposed contract between the allottee and the company or vendor or any of their associates which is conditional upon, or directly or indirectly dependent on, Shareholders' agreement to the allotment or purchase.*

  There are no contracts or proposed contracts.

- *A statement of the allottee's or purchaser's intentions regarding the future of the company if Shareholders agree to the allotment or purchase, and in particular, any intention to change the business of the company; any intention to inject further capital into the company and, if so, how; the future employment of the present employees of the company; any proposal whereby any property will be transferred between the company and the allottee, vendor or purchaser or any person associated with any of them; and any intention to otherwise redeploy the fixed assets of the company.*

  The intentions of ECE Nolans are set out in section 1.6 of this Explanatory Memorandum.

- *Any intention of the acquirer to change significantly the financial or dividend policies of the company.*

  The intentions of ECE Nolans are set out in section 1.6 of this Explanatory Memorandum.

- *The interests of the directors in the Resolution 1.*

  Ms Lu is a director of ECE Nolans, AENIL and HKEC. Dr Losada-Calderon is also a director of ECE Nolans. The Directors do not have a material personal interest in the outcome of the Resolution other than in their capacity as Shareholders. The Directors interests in Shares and Options are set out in section 9.3 of this Explanatory Memorandum.

- *The identity, associations (with the allottee, purchaser or vendor and with any of their associates) and qualifications of any person who it is intended will become a director of the Company if Shareholders agree to the allotment or purchase.*

  Nil.

- *The identity of the allottee or purchaser and any person who will have a relevant interest in the shares to be allotted or purchased*

  The New Shares will be acquired by ECE Nolans, a wholly owned subsidiary of ECE. Each of ECE, JEC, HKEC and AENIL will have a relevant interest in the New Shares by virtue of their control of ECE Nolans (under section 608(3) of the Act).

- *Full particulars (including the number and the percentage) of the shares of the company to which the allottee or purchaser is or will be entitled immediately before and after the proposed acquisition*

  Each of ECE Nolans, ECE, JEC, HKEC and AENIL currently have a relevant interest in 64,333,333 Shares representing 16.27% of the issued capital of Arafura. Immediately after the proposed allotment, ECE Nolans will hold 109,699,898 New Shares in the Company, representing 24.86% of the enlarged share capital of the Company (assuming

10 Additional information relating to the Resolution

no Options are exercised). The New Shares will rank pari passu with the existing Shares. Each of ECE, JEC, HKEC and AENIL will have a relevant interest in the New Shares by virtue of their control of ECE Nolans (under section 608(3) of the Act).

- *The recommendation or otherwise of each director as to whether the non-associated Shareholders should agree to the acquisition, and the reasons for that recommendation or otherwise.*

  The Directors' Recommendations are set out in section 9.1 of this Explanatory Memorandum and their reasons for that recommendation are set out in section 2 of this Explanatory Memorandum

- *An analysis of whether the proposal is fair and reasonable when considered in the context of the interests of the Shareholders other than those involved in the proposed allotment or purchase or associated with such persons*

  In accordance with ASIC Regulatory Guide 74, the Directors commissioned BDO Kendalls to prepare an Independent Expert's Report which assesses whether the proposed issue of Shares to ECE Nolans is fair and reasonable to Shareholders who are not associated with ECE Nolans. The report is set out in Annexure B. The Independent Expert's Report has concluded that the issue of the Shares to ECE Nolans is not fair but reasonable to Shareholders who are not associated with ECE Nolans.

  Neither the Company nor the Directors are aware of any additional information not set out in this Explanatory Memorandum that would be relevant to Shareholders in deciding how to vote on the Resolution.

ASX Listing Rule Requirements

Listing Rule 7.1 imposes a limit on the number of equity securities (e.g. shares or options to subscribe for shares) which a company can issue without shareholder approval. In general terms, a company may not, without prior shareholder approval, issue equity securities if the equity securities will in themselves or when aggregated with the securities issued by the company during the previous 12 months, exceed 15% of the number of fully paid ordinary shares on issue at the commencement of that 12 month period.

Listing Rule 7.2 exception 16 states that Listing Rule 7.1 does not apply to an issue of securities approved by shareholders for the purposes of item 7 of section 611 of the Act.

Accordingly, Resolution 1 does not seek approval for the issue of New Shares to ECE Nolans for the purposes of Listing Rule 7.1.

11 Glossary of Terms

Definitions

The meanings of capitalised terms used in this Notice of Extraordinary General Meeting and Explanatory Memorandum are set out below:

Act means the Corporations Act 2001 (Cth).

Arafura means Arafura Resources Limited ABN 22 080 933 455.

ASIC means the Australian Securities and Investments Commission.

ASX means the ASX Limited or the Australian Securities Exchange operated by ASX Limited, as the context requires.

AENIL means Australian ECE Nolans Investment Ltd.

BDO Kendalls means BDO Kendalls Corporate Finance (WA) Pty Ltd ABN 27 124 031 045.

Board means the board of Directors.

Company means Arafura Resources Limited ABN 22 080 933 455.

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

Director means a director of the Company.

ECE means the East China Mineral Exploration & Development Organisation.

ECE Nolans means ECE Nolans Investment Company Pty Ltd ACN 137 354 888.

ECE Transaction means the proposed share placement to ECE Nolans Investment Company Pty Ltd as described in section 1 of this Explanatory Memorandum.

Explanatory Memorandum means the explanatory memorandum to the Notice.

Extraordinary General Meeting means the extraordinary general meeting of Shareholders to be held on 18 October 2012.

FIRB means the Foreign Investment Review Board.

HKEC means the Hong Kong East China Non-Ferrous Minerals Resources Co Ltd.

Independent Directors means Mr. Ian Kowalick and Mr. Chris Tonkin.

Independent Expert's Report means the report of BDO Kendalls dated 13 September 2012 set out in Annexure B.

JEC means Jiangsu Eastern China Non-Ferrous Metals Investment Holdings Co Ltd (Chinese company number 32000000022445).

Listing Rules means the listing rules of ASX.

LOI means the Letter of Intent dated 14 June 2012 between Arafura Resources Limited and Jiangsu Eastern China Non-Ferrous Metals Investment Holding Co. Ltd.

11 Glossary of Terms

Meeting has the meaning given in the introductory paragraph of the Notice.

New Shares means the issue of 45,266,500 Shares to ECE Nolans Investment Company Pty Ltd pursuant to the 2012 Share Subscription Agreement.

Notice means this Notice of Extraordinary General Meeting.

Proxy Form means the proxy form attached to the Notice.

Resolution means a resolution contained in the Notice.

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

Shareholder means a shareholder of the Company.

2009 Share Subscription Agreement means the Share Subscription Agreement dated June 7, 2009 made between Arafura Resources Limited and ECE Nolans Investment Company Pty Ltd whereby ECE Nolans took a 24.86% ownership stake in the Company's ordinary share capital. Since then, Arafura has participated in several equity transactions whereby ECE Nolans ultimate ownership has been diluted down to 16.27% in the Company's ordinary share capital.

2012 Share Subscription Agreement means the Share Subscription Agreement made between Arafura Resources Limited and ECE Nolans Investment Company Pty Ltd and dated 30 August 2012, a summary of which is contained in Annexure A to this Explanatory Memorandum.

Transaction or **ECE Transaction** means the proposed share placement to ECE Nolans Investment Company Pty Ltd as described in section 1 of this Explanatory Memorandum.

Trading Day means a trading day within the meaning of the ASX Listing Rules

WST means Western Australian Standard Time.

Annexure A

Summary of the 2012 Share Subscription Agreement

Under the 2012 Share Subscription Agreement (**Subscription Agreement**), Arafura will place a total of 45,266,500 new Shares at A$0.22 per share to ECE Nolans to raise the **Subscription Amount** of $9,958,630 in cash (**Placement**). The **New Shares** under the Placement will when issued be fully paid ordinary shares in the capital of Arafura ranking equally with all other Shares.

A summary of the key terms of the Subscription Agreement is set out below. Sections 1.6, 2, 3-4 and 6-7 inclusive of the Explanatory Memorandum explain the effect of the Placement on Arafura's financial position, capital structure and control.

Completion of the Placement

Completion of the issue of the New Shares to ECE Nolans will occur 5 Business Days after satisfaction or waiver of all of the conditions precedent referred to below (**Placement Completion Date**). On completion, ECE Nolans will make payment to Arafura of the Subscription Amount being the funds for the Placement by way of bank cheque and apply for the subscription and issue of the New Shares.

Conditions Precedent

The obligations of ECE Nolans to subscribe for and Arafura to issue the New Shares under the Subscription Agreement do not become binding until all of the following Conditions Precedent are satisfied or waived:

1. The Australian Foreign Investment and Review Board (FIRB) acting by the Treasurer (or his delegate) granting written permission in the form of a statement of non-objection for the New Shares to be issued to ECE Nolans with such permission to be issued without conditions on or before 2 October 2012 unless agreed otherwise.

2. ECE Nolans obtaining all waivers, consents, approvals, orders, and authorisations of and notices, reports and filings with the Jiangsu Development & Reform Commission and Department of Commerce, Jiangsu Province for the New Shares to be issued to ECE Nolans with such obtainment to be completed on or before 2 October 2012 unless agreed otherwise.

3. Arafura obtaining all Arafura shareholder approval/s required under the Corporations Act and under the ASX Listing Rules for the issue of the New Shares, including approval under section 611 Item 7 of the Corporations Act for ECE Nolans to obtain a relevant interest in 20% or more of the total number of the fully paid ordinary shares in the share capital of Arafura. The Arafura shareholder approval/s must be obtained on or before 29 October 2012 unless agreed otherwise.

If any Conditions Precedent is not satisfied or waived on or before 5 pm on the date as referred to above (or such later date or dates agreed by the parties), then either Arafura or ECE Nolans may terminate the Subscription Agreement by giving written notice to the other.

If all of the Conditions Precedent are not satisfied or validly waived by 5pm on 31 October 2012 (or such later date agreed by the parties), then either Arafura or ECE Nolans may terminate the Subscription Agreement by giving written notice to the other.

Each party must provide reasonable assistance to the other to enable it to satisfy the Conditions Precedent including reasonable access to documents and personnel during business hours.

ECE Nolans has special obligations to provide assistance and specific information needed to enable Arafura to properly prepare the Notice of Meeting, Explanatory Memorandum and Report in accordance with section 611, item 7 of the Corporations Act and ASIC Regulatory Guide 74 (entitled "***Acquisitions agreed to by shareholders***"), for the purposes of satisfying condition 3 above relating to obtaining all the Arafura shareholder approvals described in that condition.

Annexure A

ECE Nolans acknowledges and agrees that ECE Nolans and its associates (as defined in the Corporations Act and the ASX Listing Rules) may be excluded from voting any of the Arafura shares they hold for the purposes of the Arafura shareholders resolution in condition 3 above.

Pre-Completion Undertakings

During the period from the date of the Subscription Agreement to the Placement Completion Date for the issue of the New Shares, and except as otherwise expressly specified in the Subscription Agreement or with ECE Nolan's prior written consent, Arafura shall:

(a) use its assets only in the ordinary course of business;

(b) use its reasonable efforts to retain the services of employees;

(c) comply with all applicable laws;

(d) keep in full force and effect present insurance policies or other adequate insurance coverage relating to its assets;

(e) subject to paragraph (f) below, keep and maintain in proper and lawful manner and comply in a Material manner with all permits which are necessary to conduct the Nolans Bore development, and, if necessary, renew all such permits by their terms or in the ordinary course of business, and bear and discharge in proper, lawful and prompt manner all fees and charges in connection with the maintenance or renewal of any such permit;

(f) not voluntarily dispose of or agree to dispose of any of its material assets (except assets less than A$5,000,000.00) or enter into new contracts (except contract volume of which less than A$5,000,000.00 payable or receivable over the duration of the contract) without the prior written consent of ECE Nolans; and

(g) give advance notice to ECE Nolans of, and discuss in good faith with ECE Nolans the implications arising from, the issue of any shares to a third party (other than the issue of the New Shares to the ECE Nolans contemplated in the Subscription Agreement).

Further, without limiting the above undertakings in (a) through (g), Arafura shall not, except as otherwise expressly contemplated by the Subscription Agreement, without the prior written consent of ECE Nolans:

(i) amend its constitution, or bylaws;

(ii) enter into or modify any employment, severance, retention, termination, incentive plan or similar agreements with, or grant any bonuses, salary increases, severance or termination pay (excluding the severance or termination pay that are necessary to be made as a result of any employee's voluntary leave), incentive plan, including options or other equity-based awards, to, any employee, or otherwise increase the compensation or benefits provided to any employee, except as may be required by applicable laws or is customary for Arafura or in the ordinary course of business;

(iii) enter into or adopt any new employee benefit plan, program or other agreement or amend any such plan except as may be required by applicable laws or is customary for Arafura or in the ordinary course of business;

(iv) omit or agree or commit to omit to take any action necessary to prevent any representation or warranty herein contained from being inaccurate in any respect at any time; or

(v) agree in writing or otherwise to take any of the foregoing actions.

Annexure A

Required Notice: Communication of Information

At all times prior to the Placement Completion Date, Arafura shall promptly give written notice to ECE Nolans of any facts or circumstances or the occurrence of any event or the failure of any event to occur which might have a Material Adverse Effect on the Company and certain other prescribed events including but not limited to: any complaints, investigations or hearings of any governmental authority; the commencement or the threat of any litigation or similar action; the occurrence of any event which will or is reasonably likely to result in the failure to satisfy any obligation, covenant, representation and warranty set forth in the Subscription Agreement; or any notice or other communication from any person alleging that the consent of such person is or may be required in connection with the transactions contemplated by the Subscription Agreement.

Material and Material Adverse Effect

For the purposes of the Subscription Agreement:

Material means, in relation to an event, thing, matter, action, non-action or omission (an **Event**), that the Event:

(a) has; or

(b) a reasonable person would expect the Event to have,

a material effect on the price or the value of the fully paid ordinary shares in the share capital of Arafura.

Material Adverse Change or **Material Adverse Effect** means:

(a) the disposal of any major asset or assets of the Arafura Group which would have, or could reasonably be expected to have (whether now or in the future) a material adverse effect on the business, assets, liabilities, financial or trading position, profitability or prospects of the Arafura Group, unless otherwise agreed by ECE Nolans; or

(b) with respect to either Arafura or ECE Nolans, any (i) event, occurrence, fact, condition, change or development that has had a material adverse effect on the operations, results of operations, financial condition or prospects, property, assets or liabilities of either Arafura or ECE Nolans, or (ii) material impairment of the ability to perform the material obligations of either Arafura or ECE Nolans under the Subscription Agreement.

Termination for Insolvency or Material Breach

A party (**Non-Defaulting Party**) may terminate the Subscription Agreement immediately by written notice to the other party (**Defaulting Party**) on or prior to Completion of the issue of the New Shares to ECE Nolans if:

(a) the Defaulting Party becomes insolvent, a Court order is made or a resolution is passed to wind up the Defaulting Party, or an administrator, receiver, liquidator or other external manager is appointed to the Defaulting Party, its affairs or its assets; or

(b) The Defaulting Party commits a material breach of the Subscription Agreement and such breach is incapable of remedy, or such breach is capable of a remedy and the Defaulting Party has failed to remedy the breach within three (3) Business Days after receiving a notice from the Non-Defaulting Party requiring it to do so.

Annexure A

Summary Termination for Merger or Material Adverse Effect

If, during the period from the date of the Subscription Agreement to the Placement Completion Date, Arafura does any of the following things (or agrees to do so), then ECE Nolans may, at ECE Nolan's election, choose to terminate this agreement immediately upon written notice to Arafura:

(a) Arafura merges or consolidates with any other entity; or

(b) Arafura takes any action that would result in a Material Adverse Effect or any action that would result in any of the "***Representations and Warranties"*** given by Arafura, as described below, becoming false or inaccurate.

Representations and Warranties

Each of Arafura and ECE Nolans has given in favour of the other standard warranties under the Subscription Agreement in relation to their respective corporate existence, capacity, authority, obtainment of all necessary consents and approvals to enter into the Subscription Agreement and also regarding the validity and legally binding nature of the Subscription Agreement. (**Mutual Warranties**)

In addition Arafura, has given the following customary warranties (**ARU Warranties**) that:

(a) Arafura is conducting its business in Material compliance with all Material legislation, regulations, by-laws and requirement of all authorities and is not in violation of any Material federal, provincial, municipal, local or foreign law, statue, regulation, by-law, decree, rule, policy, directive, guideline, order, permit, licence, certificate, approval or authorisation applicable to it, its properties or activities;

(b) the execution and delivery of the Subscription Agreement and the performance of Arafura's obligations under the Subscription Agreement do not conflict with:

(i) any statute, rule, regulation or securities laws applicable to it (if any);

(ii) Arafura's constitution or any resolutions of its directors or shareholders which are currently in effect;

(iii) any mortgage, note, indenture, contract, agreement, instrument, lease or other document to which Arafura is a party or by which Arafura or any company in the Arafura Group is bound; or

(iv) any judgement, decree or order binding on Arafura or its properties or assets or on any company in the Arafura Group or its assets;

(c) Arafura is in Material compliance with all contracts, agreements, leases, policies and licences connected with the conduct of the business;

(d) no order prohibiting the issue or sale of the securities (to ECE Nolans or otherwise) has been issued and is currently effective and to the best of Arafura's knowledge no proceedings for this purpose have been instituted or are pending, contemplated or threatened;

(e) the New Shares will when issued be fully paid ordinary shares in the capital of Arafura ranking equally in all respects with all other shares in its capital;

(f) except for the options disclosed in Arafura's options register established and maintained under Chapter 2C of the Corporations Act, there are no agreements, arrangements or understandings in force or securities issued which call for the present or future issue of, or grant to any person the right to require the issue of, any shares or other securities in Arafura;

(g) there is no litigation, arbitration or administrative proceedings taking place, pending or to the knowledge of Arafura threatened against it or any of its properties of any company in the Arafura Group;

(h) all options, performance shares, or other arrangements in existence at the date of the Subscription Agreement which may lead to any Shares being issued (excluding the New Shares) are set out in the Schedule of Arafura's Capital shown at the end of this annexure; and

(i) the share capital of Arafura at the date of the Subscription Agreement is as set out in the Schedule of Arafura's Capital shown at the end of this annexure.

ECE Nolans has given customary warranties (**Subscriber Warranties**) that:

(a) it is either: a "sophisticated investor" in relation to whom either or both of sections 708(8)(a) and (b) apply in respect of the New Shares; a "sophisticated investor" within the meaning of section 708(8)(c) of the Corporations Act and has given to Arafura a certificate to that effect in accordance with that section; or a "professional investor" within the meaning of section 708(11) of the Corporations Act;

(b) ECE Nolans agrees to be bound by the constitution of Arafura (as amended from time to time);

(c) ECE Nolans agrees to provide all necessary and accurate information to Arafura in order to prepare the Notice of Meeting, Explanatory Memorandum and to procure the Signed Report required for the Arafura shareholder approval/s described in condition 3 under the section headed "***Conditions Precedent***" above; and

(d) it is an Australian incorporated proprietary company and is a 100% owned subsidiary of East China Exploration & Development Bureau.

Effect of Warranties

Each of the Mutual Warranties, ARU Warranties and Subscriber Warranties are represented, by the party giving the applicable warranty, as true and accurate at the date of the Subscription Agreement and as at the Placement Completion Date.

The Subscription Agreement requires, among other things, that a Notice of potential Claims must be in writing. A Defaulting Party has no liability for a breach of Warranty unless the Claimant Party has given a written Notice of potential Claims on or before the date which is 3 months after the Placement Completion Date.

Post Completion Obligations

Within 3 Business Days after the issue of the New Shares, Arafura must:

(a) release to the ASX a cleansing notice and comply with all the obligations set out in section 708A(5) of the Corporations Act; and

(b) apply to the ASX for ASX Quotation of the New Shares.

Annexure A

Assignment

A party to the Subscription Agreement may not assign its rights, interests or benefits under the Subscription Agreement without the prior written consent of the other party.

Governing Law

The Subscription Agreement shall be governed in accordance with the laws of the State of Western Australia and Arafura and ECE Nolans submit themselves to the non-exclusive jurisdiction of the Courts of that State.

Schedule of Arafura's Share Capital

Securities quoted on the ASX	
Number	**Class**
396,004,144	Fully paid ordinary shares

Securities not quoted on the ASX			
Number	**Class**	**Exercise Price**	**Expiry Date**
2,700,000	option	$0.85	31/12/2013
1,100,000	option	$1.19	31/12/2012
850,000	option	$0.75	20/07/2013
750,000	option	$0.98	31/08/2013
750,000	option	$1.08	14/09/2013
1,100,000	option	$1.54	26/11/2013
1,400,000	option	$0.96	16/07/2014
700,000	option	$0.81	31/12/2014
2,150,000	option	$0.70	24/11/2014

Annexure B

The Independent Expert's Report prepared by BDO Kendalls dated 13 September 2012 follows:

ARAFURA RESOURCES LIMITED
Independent Expert's Report

13 September 2012

Financial Services Guide

13 September 2012

BDO Corporate Finance (WA) Pty Ltd ABN 27 124 031 045 ("we" or "us" or "ours" as appropriate) has been engaged by Arafura Resources Limited ("Arafura") to provide an independent expert's report on the proposal to issue 45,266,500 shares at an issue price of $0.22 per share to ECE Nolans Investment Company Proprietary Limited ("ECE") which will provide $9.96 million in funding to the Company. You will be provided with a copy of our report as a retail client because you are a shareholder of Arafura.

Financial Services Guide

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide ("FSG"). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- Who we are and how we can be contacted;
- The services we are authorised to provide under our Australian Financial Services Licence, Licence No. 316158;
- Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- Any relevant associations or relationships we have; and
- Our internal and external complaints handling procedures and how you may access them.

Information about us

BDO Corporate Finance (WA) Pty Ltd is a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The financial product advice in our report is provided by BDO Corporate Finance (WA) Pty Ltd and not by BDO or its related entities. BDO and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business.

Financial services we are licensed to provide

We hold an Australian Financial Services Licence that authorises us to provide general financial product advice for securities to retail and wholesale clients.

When we provide the authorised financial services we are engaged to provide expert reports in connection with the financial product of another person. Our reports indicate who has engaged us and the nature of the report we have been engaged to provide. When we provide the authorised services we are not acting for you.

General Financial Product Advice

We only provide general financial product advice, not personal financial product advice. Our report does not take into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice.

Fees, commissions and other benefits that we may receive
We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees are agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. The fee for this engagement is approximately $55,000.

Except for the fees referred to above, neither BDO, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Other Assignments
BDO Audit and Assurance (WA) Pty Ltd is the appointed Auditor of Arafura. We do not consider that this impacts on our independence in accordance with the requirements of Regulatory Guide 112 'Independence of Experts'. We have completed a conflict search of BDO affiliated organisations within Australia. This conflict search incorporates all Partners, Directors and Managers of BDO affiliated organisations. We are not aware of any circumstances that, in our view, would constitute a conflict of interest or would impair our ability to provide objective assistance in this matter.

Remuneration or other benefits received by our employees
All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report. We have received a fee from Arafura for our professional services in providing this report. That fee is not linked in any way with our opinion as expressed in this report.

Referrals
We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Complaints resolution
Internal complaints resolution process
As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing addressed to The Complaints Officer, BDO Corporate Finance (WA) Pty Ltd, PO Box 700 West Perth WA 6872.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme
A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service ("FOS"). FOS is an independent organisation that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial service industry. FOS will be able to advise you as to whether or not they can be of assistance in this matter.

Our FOS Membership Number is 12561. Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly via the details set out below.

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001
Toll free: 1300 78 08 08
Facsimile: (03) 9613 6399
Email: info@fos.org.au

Contact details
You may contact us using the details set out at the top of our letterhead on page 1 of this FSG.

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38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

13 September 2012

The Directors
Arafura Resources Limited
Level 5, 16 St Georges Terrace
PERTH WA 6000

Dear Sirs

INDEPENDENT EXPERT'S REPORT

1. Introduction

On 19 June 2012, Arafura Resources Limited ("Arafura" or "the Company") announced that it had signed a Letter of Intent with its largest shareholder, ECE Nolans Investment Company Proprietary Limited ("ECE") under which ECE will subscribe for 45,266,500 shares at an issue price of $0.22 per share which will provide $9.96 million in funding to the Company ("the Placement"). On 10 September 2012, the Company advised that the Share Subscription Agreement has been formally executed regarding the Placement.

The Placement, which will result in ECE holding an interest in Arafura in excess of 20%, will be subject to shareholder approval which will be sought under item 7 section 611 of the Corporations Act 2001.

2. Summary and Opinion

2.1 Purpose of the report

The directors of Arafura have requested that BDO Corporate Finance (WA) Pty Ltd ("BDO") prepare an independent expert's report ("our Report") to express an opinion as to whether or not the Placement is fair and reasonable to the non associated shareholders of Arafura ("Shareholders").

Our Report is prepared pursuant to section 611 of the Corporations Act and is to be included in the Notice of Meeting and Explanatory Statement for Arafura in order to assist the Shareholders in their decision whether to approve the Placement.

2.2 Approach

Our Report has been prepared having regard to Australian Securities and Investments Commission ("ASIC"), Regulatory Guide 111 ("RG 111"), 'Content of Expert's Reports' and Regulatory Guide 112 ("RG 112") 'Independence of Experts'.

In arriving at our opinion, we have assessed the terms of the Placement as outlined in the body of this report. We have considered:

- How the value of an Arafura share prior to the Placement compares to the value of the consideration to be paid for each Arafura share;
- The likelihood of a superior alternative offer being available to Arafura;
- Other factors which we consider to be relevant to the Shareholders in their assessment of the Placement; and
- The position of Shareholders should the Placement not proceed.

2.3 Opinion

We have considered the terms of the Placement as outlined in the body of this report and have concluded that, in the absence of a superior offer, the Placement is not fair but reasonable to Shareholders.

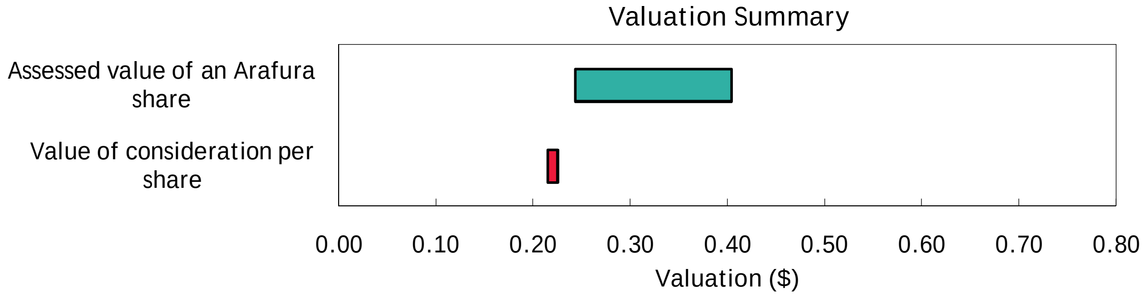
In our opinion, the Placement is not fair because the value of an Arafura share prior to the Placement is higher than the value of the consideration being offered by ECE. However, we consider the Placement to be reasonable because the advantages of the Placement to Shareholders are greater than the disadvantages. In particular, Arafura requires funds in the short term to progress the feasibility study for its Nolans Project and the Placement provides a secure alternative in order to achieve this result.

2.4 Fairness

In section 11 we determined that the Placement consideration compares to the value of an Arafura share, as detailed hereunder.

	Ref	Low $	Preferred $	High $
Value of an Arafura share prior to Placement	10.3	0.243	0.323	0.404
Value of consideration per share	4	0.220	0.220	0.220

The above valuation ranges are graphically presented below:



The above pricing indicates that, in the absence of any other relevant information and a superior offer, the Placement is not fair for Shareholders as the value of an Arafura share is higher than the value of the consideration per share to be received.

2.5 Reasonableness

We have considered the analysis in section 12 of this report, in terms of both

- advantages and disadvantages of the Placement; and

- alternatives, including the position of Shareholders if the Placement does not proceed.

In our opinion, the position of Shareholders if the Placement is approved is more advantageous than the position if the Placement is not approved. Accordingly, in the absence of any other relevant information and/or a superior proposal we believe that the Placement is reasonable for Shareholders.

The respective advantages and disadvantages of the Placement considered are summarised below:

ADVANTAGES AND DISADVANTAGES			
Section	Advantages	Section	Disadvantages
12.4	Immediate capital injection to progress Nolans Project	12.5	Dilution of existing Shareholders' interests
12.4	Continued support from strategic investor	12.5	ECE will gain an increased level of control of Arafura
12.4	No changes to current operating structure		
12.4	Guaranteed short term funding source		

Other key matters we have considered include:

Section	Description
12.1	No alternative proposals
12.2	Practical level of control that ECE will gain
12.3	Consequences of not approving the Placement

3. Scope of the Report

3.1 Purpose of the Report

Section 606 of the Corporations Act Regulations ("the Act") expressly prohibits the acquisition of shares by a party if that acquisition will result in that person (or someone else) holding an interest in 20% or more of the issued shares of a public company, unless a full takeover offer is made to all shareholders.

As at the date of our report, ECE holds 16.27% of the issued capital of Arafura. Assuming no other shares are issued by Arafura, the Placement will increase ECE's holding to 24.86%.

Section 611 permits such an acquisition if the shareholders of that entity have agreed to the issue of such shares. This agreement must be by resolution passed at a general meeting at which no votes are cast in favour of the resolution by any party who is associated with the party acquiring the shares, or by the party acquiring the shares. Section 611 states that shareholders of the company must be given all information that is material to the decision on how to vote at the meeting.

Regulatory Guide 74 issued by ASIC deals with "Acquisitions Agreed to by Shareholders". It states that the obligation to supply shareholders with all information that is material can be satisfied by the non-associated directors of Arafura, by either:

- undertaking a detailed examination of the Placement themselves, if they consider that they have sufficient expertise; or
- by commissioning an Independent Expert's Report.

The directors of Arafura have commissioned this Independent Expert's Report to satisfy this obligation.

3.2 Regulatory guidance

In determining whether the Placement is fair and reasonable, we have had regard to the views expressed by ASIC in RG 111. This regulatory guide provides guidance as to what matters an independent expert should consider to assist security holders to make informed decisions about transactions.

This regulatory guide suggests that where the transaction is a control transaction, the expert should focus on the substance of the control transaction rather than the legal mechanism to affect it. RG 111 suggests that where a transaction is a control transaction, it should be analysed on a basis consistent with a takeover bid.

In our opinion, the Placement is a control transaction as defined by RG 111 and we have therefore assessed the Placement to consider whether, in our opinion, it is fair and reasonable to Shareholders.

3.3 Adopted basis of evaluation

RG 111 states that a transaction is fair if the value of the offer price or consideration is greater than the value of the securities subject of the offer. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. When considering the value of the securities subject of the offer in a control transaction the expert should consider this value inclusive of a control premium. Further to this, RG 111 states that a transaction is reasonable if it is fair. It might also be reasonable if despite being 'not fair' the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid.

Having regard to the above, BDO has completed this comparison in two parts:

- A comparison between the value of the Placement consideration for each Arafura share and the value of each Arafura share being acquired (fairness – see section 11 "Is the Placement Fair?"); and
- An investigation into other significant factors to which Shareholders might give consideration, prior to approving the Placement, after reference to the value derived above (reasonableness – see section 12 "Is the Placement Reasonable?").

This assignment is a Valuation Engagement as defined by APES 225 Valuation Services. A Valuation Engagement means an engagement or assignment to perform a valuation and provide a valuation report where we determine an estimate of value of the Company by performing appropriate valuation procedures and where we apply the valuation approaches and methods that we consider to be appropriate in the circumstances.

4. Outline of the Placement

On 19 June 2012, Arafura Resources Limited announced that it had signed a Letter of Intent with ECE Nolans Investment Company Proprietary Limited regarding a share placement. On 10 September 2012 the Company advised that the Share Subscription Agreement had been formally executed regarding the Placement.

Under the terms of the Share Subscription Agreement, Arafura has agreed to issue a total of 45,266,500 fully paid ordinary shares to ECE at an issue price of $0.22 per share to raise a total of $9.96 million. The Placement will be subject to shareholder approval and regulatory approvals in both the People's Republic of China and Australia.

During 2009, ECE and Arafura entered into a share subscription agreement which saw ECE subscribe for 64,433,333 fully paid ordinary shares in consideration for a capital injection of $22.9 million. At the time, this gave ECE an approximate 25% interest in the issued capital of Arafura.

As at the date of this report ECE holds 16.27% of the issued capital of Arafura. Assuming no other shares are issued by Arafura or options exercised, the Placement will give ECE a holding of 24.86% in Arafura. These movements are shown in the table below:

	ECE	Other Shareholders	Total
Issued Shares as at the date of this Report	64,433,333	331,570,811	396,004,144
% holdings as at date of this Report	*16.27%*	*83.73%*	*100.00%*
Shares to be issued under the Placement	45,266,500	-	45,266,500
Issued shares after Placement	109,699,833	331,570,811	441,270,644
% holdings after Placement	*24.86%*	*75.14%*	*100.00%*

The table above does not include any options that are currently on issue. As at the date of this report, Arafura has 11,500,000 options on issue of which ECE does not hold any. If all options on issue are exercised, ECE's holding will be diluted to 24.23%.

5. Profile of Arafura Resources Limited

5.1 History

Arafura is a rare earths explorer and developing producer. The Company first began acquiring land in the Northern Territory in the mid-1990s and listed on the Australian Securities Exchange ("ASX") on 5 November 2003. Initially, land was acquired on the basis that it was in geologically prospective areas, had little or no modern exploration, but known mineralisation. For ease of planning Arafura then created a portfolio of "company making" prospects in regional proximity to one another. Arafura has continued to build on this portfolio, incorporating a number of assets with different mineral contents at differing levels of development.

In January 2007 Arafura demerged its uranium assets into Nupower Resources Limited. The demerger meant that the Company could concentrate on its rare earth, gold and iron ore assets.

The Company's head office is located in Perth with regional offices also located in Darwin, Northern Territory and Whyalla, South Australia. Arafura's board of directors consists of Ian Kowalick as Non-

Executive Chairman, Executive Director Chris Tonkin, and Shasha Lu and Alex Losada-Calderon as Non-Executive Directors.

The most recent capital raising undertaken by the Company was a Share Purchase Plan completed in March 2012 which raised approximately $8.3 million. Towards the end of 2011 a non-renounceable rights issue was undertaken by the Company, but due to a significant decline in the Company's share price prior to the offer period closing the rights issue was cancelled in November 2011.

5.2 Key Assets

Nolans Bore Rare Earth Project

Arafura's primary focus is the development of its Nolans Rare Earth Project ("Nolans Project"). The cornerstone of the Nolans Project is the Nolans Bore deposit discovered in 1995 and situated approximately 135 kilometres north-west of Alice Springs in the Northern Territory. The proposed mine is on the Aileron pastoral lease which is about 10 km west of the Stuart Highway. The Nolans Project is designed to be a high recovery, low cost producer of rare earth oxides. Rare earths are a collection of chemical elements used worldwide in many applications such as lasers, rechargeable batteries, computer and television screens, magnets, mobile phones and energy efficient lighting.

During June 2012, the Company announced an amended estimate of JORC mineral resources for the Nolans Project; this update replaces the resource estimate completed in March 2012. During the quarter ended 30 June 2012 the Company progressed key technical and engineering work streams for the Nolans Project and as well as assessing short and medium term capital funding required to progress the project.

On 7 August 2012, the Company released a project update for the Nolans Project. This update included a base case scenario for the Nolans Project which is the focus of the feasibility study. It also noted that the Company is advancing its feasibility study on the project and this is considered its highest priority.

Aileron / Reynolds Range

Arafura has tenements in the Reynolds Range, approximately 135 km north-north-west of Alice Springs. The tenements cover an area of 2,029 km^2. Other than exploration efforts at Nolan's Bore, exploration undertaken by Arafura over its Aileron / Reynolds Range holdings has been limited. Arafura considers the area to be prospective for the discovery of rare earths, gold, iron and uranium.

Hammer Hill

The Hammer Hill project is located approximately 180 km north-east of Alice Springs. The area holds potential for the discovery of rare earths and base metals, principally copper.

Jervois

The discovery of vanadium-bearing magnetite at the Jervois project represents further potential to diversify Arafura's commodity base. The project is located approximately 290 km north-east of Alice Springs.

Kurinelli

This area represents a potential new gold district but has not been extensively explored using modern exploration techniques. Arafura holds several tenements in the area which is approximately 150 km south-east of Tennant Creek.

Mt Porter / Frances Creek

Arafura has interests in a number of gold tenements in the Pine Creek region, located approximately 170 km south-east of Darwin and 15 kilometres north of Crocodile Gold Union Reefs mill. The Mt Porter resource contains 34,200 ounces of gold conducive to open cut mining.

Refer Appendix 4 for further information regarding the Company's projects.

5.3 Historical Balance Sheet

Statement of Financial Position	Unaudited as at 30-Jun-12 $	Reviewed as at 31-Dec-11 $	Audited as at 30-Jun-11 $
CURRENT ASSETS			
Cash and cash equivalents	19,545,603	35,305,304	70,223,566
Trade and other receivables	531,876	1,241,847	1,851,072
Assets classified as held for sale	-	756,952	749,033
TOTAL CURRENT ASSETS	20,077,479	37,304,103	72,823,671
NON-CURRENT ASSETS			
Available-for-sale financial assets	-	667,576	739,102
Property, plant and equipment	362,011	431,716	498,920
Deferred exploration and evaluation costs	125,475,008	110,899,308	77,837,834
Other assets	2,000,000	2,000,000	2,000,000
TOTAL NON-CURRENT ASSETS	127,837,019	113,998,600	81,075,856
TOTAL ASSETS	147,914,498	151,302,703	153,899,527
CURRENT LIABILITIES			
Borrowings	9,260	8,578	26,469
Trade and other payables	4,994,842	12,682,336	11,564,708
TOTAL CURRENT LIABILITIES	5,004,102	12,690,914	11,591,177
NON-CURRENT LIABILITIES			
Borrowings	16,030	20,831	25,291
Trade and other payables	64,259	37,122	34,977
TOTAL NON-CURRENT LIABILITIES	80,289	57,953	60,268
TOTAL LIABILITES	5,084,391	12,748,867	11,651,445
NET ASSETS	142,830,107	138,553,836	142,248,082
EQUITY			
Contributed equity	184,363,890	176,163,635	176,163,635
Reserves	10,953,178	10,605,082	9,876,486
Accumulated losses	(52,486,961)	(48,214,881)	(43,792,039)
TOTAL EQUITY	142,830,107	138,553,836	142,248,082

Source: Unaudited management accounts as at 30 June 2012, reviewed financial statements for the half year ended 31 December 2011 and audited financial statements for the year ended 30 June 2011.

5.4 Historical Statement of Comprehensive Income

Statement of Comprehensive Income	Unaudited for the year ended 30-Jun-12 $	Reviewed for the six months ended 31-Dec-11 $	Audited for the year ended 30-Jun-11 $
Revenue			
Revenue from continuing operations	2,097,194	1,501,493	3,346,530
Other income	523,223	189,122	(5,930)
Expenses			
Employee benefits expense	(6,485,791)	(3,334,472)	(7,027,990)
Project feasibility and evaluation	(158,567)	(158,567)	(72,448)
Other expenses	(4,417,806)	(2,458,327)	(3,460,245)
Depreciation and amortisation	(181,951)	(101,404)	(230,366)
Finance costs	(2,958)	(1,680)	(5,556)
Impairment of assets	(68,266)	(59,007)	(5,991)
Loss before income tax	(8,694,922)	(4,422,842)	(7,461,996)
Income tax benefit	-	-	-
Net (Loss) for the period	(8,694,922)	(4,422,842)	(7,461,996)
Changes in fair value of assets	(12,519)	(12,519)	(95,368)
Total comprehensive (loss) for the period	(8,707,441)	(4,435,361)	(7,557,364)

Source: Unaudited management accounts for the year ended 30 June 2012, reviewed financial statements for the half year ended 31 December 2011 and audited financial statements for the year ended 30 June 2011.

We have not undertaken a review of Arafura’s unaudited accounts as at 30 June 2012 in accordance with Australian Auditing and Assurance Standard 2405 “Review of Historical Financial Information” and do not express an opinion on this financial information. However nothing has come to our attention as a result of our procedures that would suggest the financial information within the management accounts has not been prepared on a reasonable basis.

Cash has decreased from $70.2 million as at 30 June 2011 to $19.5 million as at 30 June 2012. This is consistent with the increase in deferred exploration and evaluation costs which has increased from $77.8 million to $125.5 million. During this period the Company undertook the most extensive resource definition and expansion drilling campaign on the Nolans Project since the prospect was first drilled in 2000. This resulted in the Company announcing a major upgrade in JORC–compliant mineral resource for the Nolans Project during March 2012.

The Company had current assets classified as held for sale totalling $0.76 million as at 31 December 2011. This related to the sale of the Mt Porter-Frances Creek Gold Project which was expected to be completed upon satisfaction of all commercial terms and conditions. We have been advised that this has yet to been completed and as at 30 June 2012 this amount has been transferred back into deferred exploration and evaluation costs.

Available-for-sale financial assets decreased from $0.67 million as at 31 December 2011 to nil as at 30 June 2012. This decrease was caused by the sale of equity securities during the period.

As at 30 June 2012 a balance of $2 million is classified as other assets. This relates to an initial deposit for a capital asset acquired under an asset sale and purchase agreement.

Contributed equity has increased by approximately $8.2 million from 31 December 2011 to 30 June 2012. This resulted from a Share Purchase Plan undertaken which saw approximately 28 million shares issued at an issue price of $0.294 per share and which closed in March 2012.

The majority of revenue from continuing operations relates to bank interest earned on cash balances. For the half year ended 31 December 2011 and the year ended 30 June 2011, the Company made losses of $4.44 million and $7.56 million respectively. For the year ended 30 June 2012 the Company made a loss of $8.71 million.

5.5 Capital Structure

The share structure of Arafura as at the date of this report is outlined below:

	Number
Total ordinary shares on issue	396,004,144
Top 20 shareholders	225,989,126
Top 20 shareholders - % of shares on issue	57.07%

Source: Security Transfer Registrars

The range of shares held in Arafura as at the date of this report is as follows:

Range of Shares Held	Number of Ordinary Shareholders	Number of Ordinary Shares	Percentage of Issued Shares (%)
1 - 1,000	1,249	710,042	0.18%
1,001 - 5,000	2,877	8,789,129	2.22%
5,001 - 10,000	1,722	14,067,315	3.55%
10,001 - 100,000	2,825	88,523,071	22.35%
100,001 - and over	290	283,914,587	71.69%
TOTAL	8,963	396,004,144	100.00%

Source: Security Transfer Registrars

The ordinary shares held by the most significant shareholders as at the date of this report are detailed below:

Name	Number of Ordinary Shares Held	Percentage of Issued Shares (%)
JP Morgan Nom Aust Ltd	95,506,091	24.12%
ECE Nolans Investment Company Pty Ltd	64,433,333	16.27%
National Nom Limited	17,132,083	4.33%
J P Morgan Nom Aust Ltd	11,999,643	3.03%
Subtotal	189,071,150	47.74%
Others	206,932,994	52.26%
Total ordinary shares on Issue	396,004,144	100.00%

Source: Security Transfer Registrars

Arafura has the following options on issue:

Current Options on Issue	Number
Options expiring 31 December 2012 exercisable at $1.19	1,100,000
Options expiring 31 December 2013 exercisable at $0.85	2,700,000
Options expiring 20 July 2013 exercisable at $0.75	850,000
Options expiring 31 August 2013 exercisable at $0.98	750,000
Options expiring 14 September 2013 exercisable at $1.08	750,000
Options expiring 26 November 2013 exercisable at $1.54	1,100,000
Options expiring 16 July 2014 exercisable at $0.96	1,400,000
Options expiring 31 December 2014 exercisable at $0.81	700,000
Options expiring 24 November 2014 exercisable at $0.70	2,150,000
	11,500,000

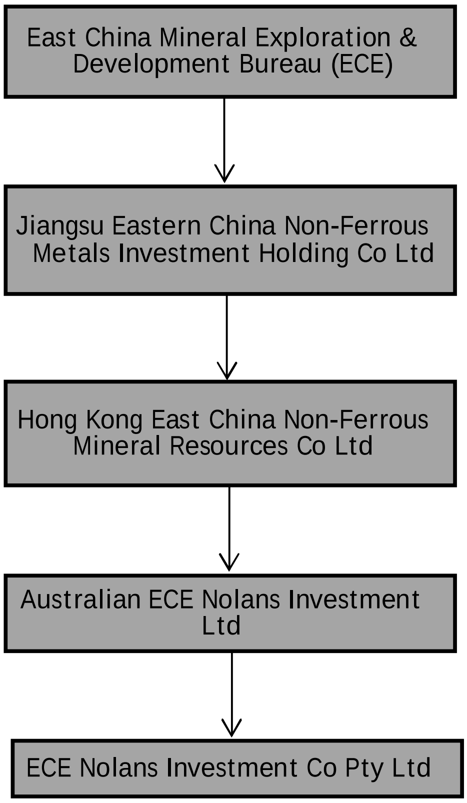
Source: Arafura management

6. Profile of ECE Nolans Investment Company Pty Limited

ECE is part of the East China Mineral Exploration and Development Bureau ("ECE Bureau") which is a Chinese State owned mineral exploration and mining organisation established in 1955. The Group's principal areas of operation are the Jiangsu, Fu Jian, An Hui and Yun Nan Provinces of Nanjing, China, where they have discovered and developed over 160 ore deposits. Outside China, ECE Bureau has exploration rights in Brazil and a mining licence in Namibia. ECE Bureau's major mining and development projects are focussed on lead-zinc, gold, copper-molybdenum and iron ore deposits.

ECE Bureau has over 4,000 employees, 6 subsidiary geological exploration units, 7 scientific research institutions and 22 companies which specialise in the field of mining, engineering and drilling.

ECE Bureau group structure is shown below:



Arafura entered into a strategic equity investment with ECE in 2009, whereby ECE subscribed for approximately 64,433,333 shares in Arafura representing an approximate 25% interest in the share capital of Arafura at that point in time. As at the date of this report, ECE's holding in the issued capital of Arafura has been diluted to 16.27%.

7. Economic analysis

Having picked up in the early months of 2012, growth in the world economy has since softened. Current assessments are that global GDP will grow at no more than average pace in 2012, with risks to the outlook still on the downside. Economic activity in Europe is contracting, while growth in the United States is only modest. Growth in China remained reasonably robust in the first half of this year, albeit well below the exceptional pace seen in recent years. Some recent indicators have been weaker, which has added to uncertainty about near-term growth. Around Asia generally, growth is being dampened by the more moderate Chinese expansion and the weakness in Europe.

Markets for key natural resources are adjusting accordingly. Some commodity prices of importance to Australia have fallen sharply in recent weeks. The terms of trade peaked a year ago and have declined significantly since then, though they remain historically high.

Financial markets have responded positively over the past couple of months to signs of progress in addressing Europe's financial problems, but expectations for further progress are high. Low appetite for risk has seen long-term interest rates faced by highly rated sovereigns, including Australia, remain at exceptionally low levels. Nonetheless, capital markets remain open to corporations and well-rated banks, and Australian banks have had no difficulty accessing funding, including on an unsecured basis. Share markets have generally risen over the past couple of months, on very light volumes.

In Australia, most indicators available suggest growth has been running close to trend, led by very large increases in capital spending in the resources sector. Consumption growth was also quite firm in the first half of the year, though some of that strength was temporary. Labour market data have shown moderate employment growth, even with job shedding in some industries, and the rate of unemployment has thus far remained low.

Inflation remains low, with underlying measures near 2% over the year to June, and headline CPI inflation lower than that. The introduction of the carbon price is starting to affect consumer prices in the current quarter, and this will continue over the next couple of quarters. The Reserve Bank of Australia's assessment is that inflation will be consistent with the target over the next one to two years. Maintaining low inflation will, however, require growth in domestic costs to remain contained as the effects of the earlier exchange rate appreciation wane.

As a result of the sequence of earlier decisions, interest rates for borrowers are a little below their medium-term averages. The impact of those changes is still working its way through the economy, but dwelling prices have firmed a little and business credit has picked up this year. The exchange rate has declined over the past month or two, though it has remained higher than might have been expected, given the observed decline in export prices and the weaker global outlook.

Source: www.rba.gov.au *Statement by Glenn Stevens, Governor: Monetary Policy Decision 4 September 2012*

8. Industry analysis

Rare earth elements ("REEs") are widely deposited yet rarely concentrated. They are used in a range of applications including electronics and technology industries, energy efficiency and greenhouse gas reduction. All REEs are chemically similar to one another and are typically found bundled in a concentrate with the relative content of each element changing from one deposit to the next. Separation of individual REEs requires solvent extraction. Typically, light rare earths are more abundant than heavy rare earths which cannot be selectively extracted. Rare earth production is largely sold through annual supply contracts.

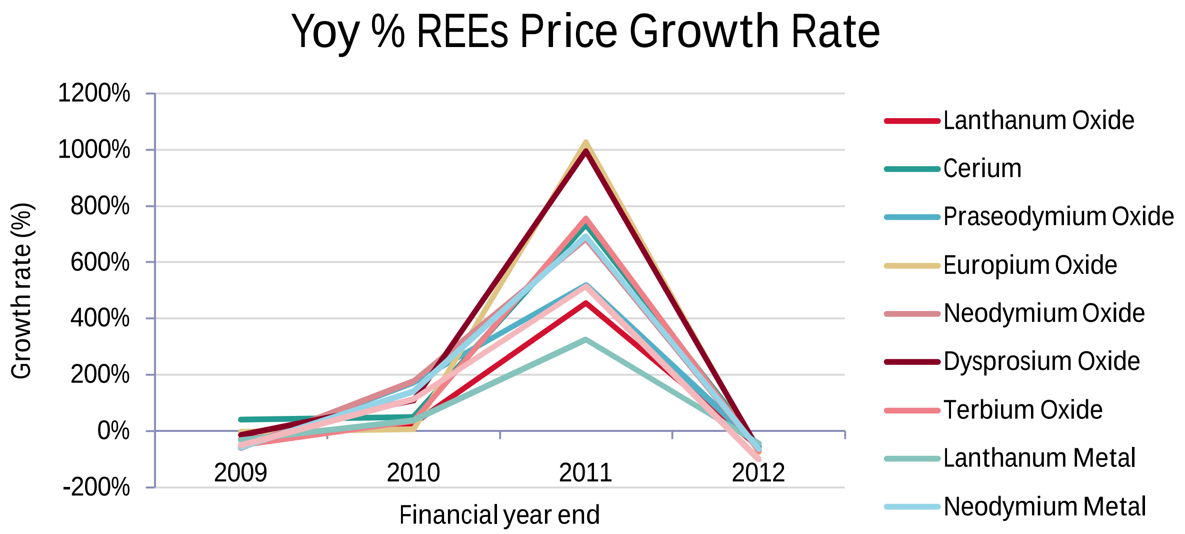
Low prices and significant over-production during the 1990's and early 2000's resulted in the majority of non-Chinese rare earth producers closing their operations. As a result, Chinese production of REEs currently accounts for approximately 95% of the global supply. China's strong position in the industry is a concern for the future supply of REEs given that the gap between Chinese production and Chinese exports has grown considerably between 2002 and 2008 as China has kept the majority of its resources for domestic consumption. This is a particular concern for major importers of REEs which include Japan, the European Union and the US.

It is anticipated that there will be a shortfall in REEs in the long term and as such, Chinese authorities are treating rare earths as a strategic asset. The number of available Chinese export licences has been reduced. In 2011 there were 22 domestic companies and 9 joint venture companies that held export licenses in China. Tariffs on rare earths oxide have been increased to between 15% and 25% to maximise domestic utilisation of the resource and facilitate the domestic development of value-adding downstream industries. Because of this, rare earth prices have remained resilient throughout the global downturn. China's strategic position as a producer, restrictions on exporting REEs, consumption characteristics and forecast end user demand mean that as the country's consumption levels approach domestic production, the rest of the world will become increasingly vulnerable to supply squeezes. The supply-demand mismatch suggests that the future is likely to present opportunities for non-Chinese REE producers.

Global demand for REEs is currently estimated to be 136,000 tonnes per year and a total of 133,600 tonnes were produced in 2010. Forecasts suggest that global demand is likely to increase upwards of between 185,000 and 210,000 tonnes annually by the year 2015. In 2010 China produced 130,000 tonnes and this figure is forecast to increase to 140,000 by 2015. Chinese domestic demand is estimated to increase from 73,000 tonnes in 2010 to 111,000 tonnes in 2015. These figures are suggestive that there will be two predominant issues confronting rare earth markets in the future. Firstly, around 45,000 to 75,000 tonnes of additional rare earth element capacity will have to be sourced relative to current production levels and secondly, given that China's production levels will only be sufficient to satisfy domestic demand, this additional capacity will have to be sourced from non-Chinese mines.

8.1 Rare Earth Prices

The graph below illustrates the year-on-year growth behaviour of the prices of common REEs over the past 4 years. The growth rates in REEs prices have been determined using prices as at 30 June for each year of the measurement period. These prices are detailed in the table below.



Source: Bloomberg and BDO Analysis

Despite the general deterioration of the global economy and sharp falls in commodity prices in the 18 months following the global financial crisis, the prices of all REEs experienced resurgence well into 2011. Since September 2011 there has been a significant decline in the price of all elements and this is believed to be caused by a sharp decline in foreign demand.

	Average REE prices FOB China ($US/kg)				
	30-Jun-08	30-Jun-09	30-Jun-10	30-Jun-11	30-Jun-12
Lanthanum Oxide	$5.17	$3.59	$4.57	$25.37	$10.86
Cerium	$1.60	$2.27	$3.39	$28.23	$12.59
Praseodymium Oxide	$25.14	$10.18	$27.65	$170.97	$80.25
Neodymium Oxide	$26.23	$10.54	$29.12	$228.19	$77.10
Europium Oxide	$386.00	$373.00	$398.00	$4,486.00	$1,141.00
Dysprosium Oxide	$96.00	$83.00	$173.00	$1,895.00	$622.00
Terbium Oxide	$568.00	$278.00	$380.00	$3,249.00	$952.00
Lanthanum Metal	$8.96	$6.00	$8.33	$35.38	$19.67
Neodymium Metal	$35.34	$14.93	$36.13	$286.21	$101.49
RE Carbonate	$2.41	$1.21	$2.58	$15.86	$10.86

Source: Bloomberg and BDO Analysis

9. Valuation approach adopted

There are a number of methodologies which can be used to value a business or the shares in a company. The principal methodologies which can be used are as follows:

- Capitalisation of future maintainable earnings ("FME")
- Discounted cash flow ("DCF")
- Quoted market price basis ("QMP")
- Net asset value ("NAV")
- Market based assessment

Different methodologies are appropriate in valuing particular companies, based on the individual circumstances of that company and available information. A summary of each of these methodologies is outlined in Appendix 2.

In our assessment of the value of Arafura shares we have chosen to employ the following methodologies:

- Sum-of-parts

We have estimated the fair market value of Arafura by aggregating the estimated fair market value of its underlying assets and liabilities. In determining the fair market value of its underlying assets, we have used the sum-of-parts basis of the fair market value of the Company's projects and assets (including net cash).

We have assessed that the most appropriate methodology in valuing the Nolans Project is the DCF method for the following reasons:

- The Nolans Project is a pre-development project for which a pre-feasibility study has been completed and for which a definitive feasibility study is in the process of being completed. Although an Ore Reserve for the Nolans Project has not been disclosed as at the date of this report, economic viability has been considered as part of both the completed pre-feasibility study and during the definitive feasibility study being currently undertaken. It is believed that an Ore Reserve estimate will be available in the near future. Based on this we consider that there are reasonable grounds to adopt the DCF approach;
- A cash flow projection on the life of mine for the Nolans Project ("Project Model") has been prepared;
- The Project Model shows irregular cash flows due to significant capital expenditure requirements over the first 36 months of the Nolans Project life;
- The Nolans Project has a finite life and is suited to applying a DCF approach.

An independent technical assessment report was prepared by AMC Consultants Pty Ltd ("AMC") to confirm that Arafura has a reasonable basis upon which to base all geological inputs as well as all capital and operating costs used in the Project Model. A copy of the AMC's report is attached in Appendix 4. AMC's independent technical assessment report also addressed the value of Arafura's other exploration assets.

In valuing Arafura's other exploration assets, we have relied on the independent valuation performed by AMC in accordance with the Code of Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports ("the Valmin Code") and the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("JORC Code"). We are satisfied with the valuation methodologies adopted by AMC which are in accordance with industry practices and in accordance with the requirements of the Valmin Code. A copy of the AMC's report is attached in Appendix 4.

Under the sum-of-parts methodology, the value of the Nolans Project under the DCF approach is added to the value of the other exploration assets before adjusting for other key assets and liabilities of the Company to arrive at the overall value of the Company.

- Quoted Market Price Basis

Arafura is an ASX listed company and therefore the QMP method is an appropriate secondary valuation method.

Our assessment of the value of an Arafura share prior to the Placement has been undertaken in section 10. We have compared this value obtained to the value of the consideration of $0.22 per share offered by ECE.

10. Valuation of Arafura prior to the Placement

10.1 Sum-of-parts Valuation of Arafura

10.1.1 Valuation of the Nolans Project

We elected the DCF approach in valuing the Nolans Project. The DCF approach estimates the fair market value by discounting the future cash flows arising from the Nolans Project to their net present value. Performing a DCF valuation requires the determination of the following:

- The expected future cash flows that the Nolans Project is expected to generate; and
- An appropriate discount rate to apply to the cash flows of the Nolans Project to convert them to present value equivalent.

10.1.2 DCF Valuation – Future cash flows

The Project Model

A cash flow model was prepared internally by the Company ("Project Model"). The Project Model estimates the future cash flows expected from developing the Nolans Project. The Project Model depicts projections of real, after-tax cash flows over the life of mine on a quarterly basis.

The Project Model was prepared based on:

- The latest JORC compliant resource statement; and
- Estimates of production profile, operating costs and capital expenditure over the life of mine.

The main assumptions underlying the Project Model include:

- Mining and production volumes
- Rare Earth Oxide ("REO") prices
- Operating costs
- Capital expenditure
- Foreign exchange rates
- Royalties
- Tax
- Discount rate.

We undertook the following analysis on the Project Model:

- A review of the mathematical structure and internal consistency;
- Appointed AMC as technical expert to review and where required, provide changes to the technical assumptions underlying the Project Model;
- Conducted independent research on certain economic and other inputs such as REO prices, foreign exchange rates, inflation, taxation assumptions and discount rate applicable to the future cash flows of the Nolans Project;

- Held discussions with Arafura's management regarding the preparation of the Project Model and its views;
- Adjusted the Project Model to reflect any changes to the technical assumptions as a result of AMC's review and any changes to the economic and other input assumptions from our research; and
- Performed a sensitivity analysis on the value of the Nolans Project as a result of flexing selected assumptions and inputs.

Appointment of a technical expert

AMC, an independent mining expert, was engaged to prepare a report providing a technical assessment of certain key assumptions underlying the Project Model. AMC's assessment involved the review and provision of input on the reasonableness of the following assumptions adopted in the Project Model:

- Production inputs (including tonnes mined, REO grade, average REO composition and recovery rates);
- Mining operating costs (including direct operating expenditure, beneficiation costs and fixed costs);
- Capital expenditure (comprising construction costs at both the Nolans Bore Mine and the Whyalla Rare Earths Complex as well as the construction schedule);
- Transport costs;
- Royalties; and
- Other relevant assumptions.

Based on AMC's report, we highlight the following conclusion on the Project Model:

- AMC concludes that the Project Model is suitable at this interim stage of the feasibility assessment, albeit providing a somewhat conservative view.

A copy of AMC's report is included in Appendix 4.

Limitations

BDO did not perform an audit or review of the Project Model in accordance with the Australian Auditing Standards and accordingly we do not express any opinion on the reliability of the Project Model, the reasonableness of the underlying assumptions or their achievability.

Since projections relate to the future, they may be affected by unforeseen events and they depend, in part, on the effectiveness of management's actions in implementing the plans on which the Project Model are based. Accordingly, actual results may vary materially from the forecasts, as it is often the case that some events and circumstances frequently do not occur as expected, or are not anticipated, and those differences may be material.

Revenue assumptions

The Nolans Project generates a number of REO products. These products have been combined to form five saleable products that the Company intends to market as follows:

- Cerium Oxide (as CeO_2);

- Didymium (Nd/Pr) Oxide (as Nd_2O_3+Pr_6O_{11});
- HRE Mixed Oxide (as Tb_4O_7+Dy_2O_3+Ho_2O_3+Er_2O_3+Tm_2O_3+Yb_2O_3+Lu_2O_3+Y_2O_3);
- Lanthanum Oxide (as La_2O_3); and
- SEG Mixed Oxide (as Sm_2O_3+Eu_2O_3+Gd_2O_3).

The table below lists the individual REO products which are combined to form the five saleable products as well as the average in-situ REO composition for the Nolans Project:

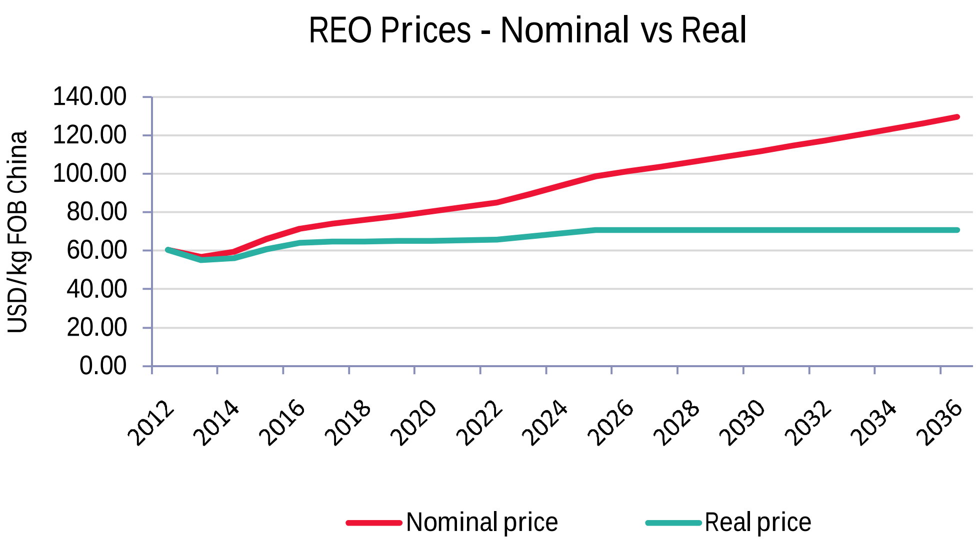
Rare Earth Oxide	Saleable Product	Average in-situ composition
Lanthanum (La)	1	19.13%
Cerium (Ce)	2	48.72%
Praseodymium (Pr)	3	5.93%
Neodymium (Nd)	3	20.58%
Samarium (Sm)	4	2.30%
Europium (Eu)	4	0.39%
Gadolinium (Gd)	4	0.99%
Dysprosium (Dy)	5	0.32%
Terbium (T)	5	0.08%
Yttrium (Y)	5	1.35%
Other	5	0.21%
		100.00%

Source: Project Model

The Project Model calculates an average price of the Nolans Project REO range based on the projected prices of each REO product and the average in-situ composition that each REO product contributes.

The 2012 real price of the Nolans Project REO range has been determined to be approximately US$60/kg FOB China. This represents the base price which is then escalated over the life of mine.

The graph below shows the projected prices, both real and nominal, for the Nolans Project REO range.



Source: Project Model

The Nolans Project is also expected to produce several co-products though the Project Model only incorporates the sale of one of these being Uranium Oxide.

In obtaining projected prices for each REO product we have considered:

- Discussions with Arafura's management regarding the basis for projected prices used in the Project Model;
- Historical spot prices;
- Most recent prices for each REO product obtained from Metals Pages; and
- Bloomberg data source.

Based on our analysis we consider the projected prices used in the Project Model to be consistent with our analysis of projected REO prices.

Mining physicals

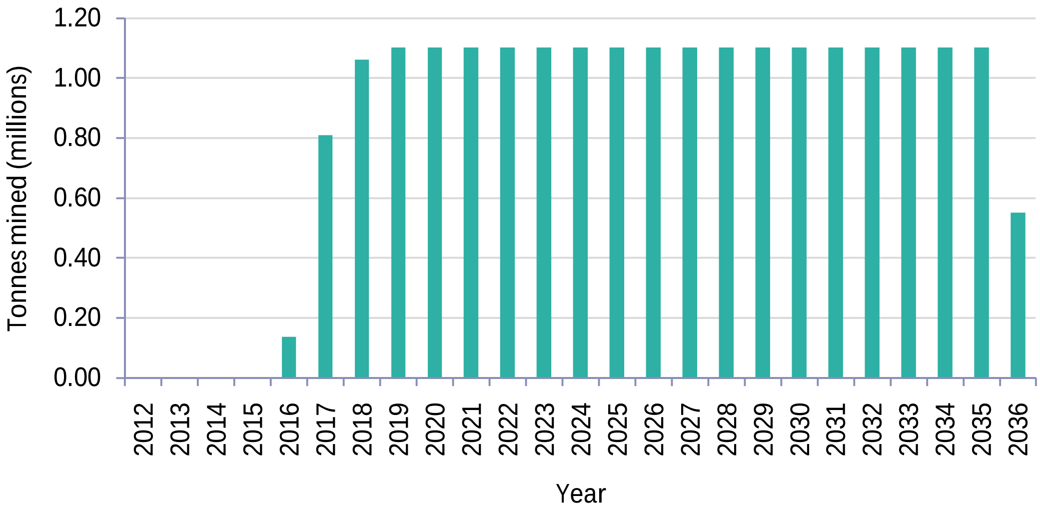
Mineral Resources were estimated for the Nolans Project following the guidelines of the JORC Code and announced to the market on 8 June 2012 as shown in the table below. Measured and Indicated Resources account for 54% of the total in-situ resources at the Nolans Project.

Resources	Tonnes (millions)	Rare Earths REO %	Tonnes REO	Phosphate P2O5%	Tonnes P2O5	Uranium U3O8 lb/t	Tonnes U3O8
Measured	4.3	3.3	144,000	13	572,000	0.57	1,120
Indicated	21	2.6	563,000	12	2,610,000	0.42	4,090
Inferred	22	2.4	511,000	10	2,220,000	0.37	3,610
Total	47	2.6	1,217,000	11	5,410,000	0.41	8,830

Source: Announcement dated 8 June 2012

The Project Model utilises the mining inventory based only on Measured and Indicated Resources which totals 25.3 million tonnes and is expected to sustain the Nolans Project for 20 years. The Company is currently working to convert the mining inventory to Ore Reserves, as defined by the JORC Code, as part of the feasibility study.

The Project Model assumes mining will commence 1 July 2016 and operations will continue for a 20 year period, the mining schedule adopted in the Project Model is shown below:



Source: Project Model

Operating Costs

Total operating costs include general and administration, maintenance materials and contractors, consumables and other support costs across both the Mine and the Whyalla Rare Earths Complex.

The Project Model makes the following assumptions on operating costs:

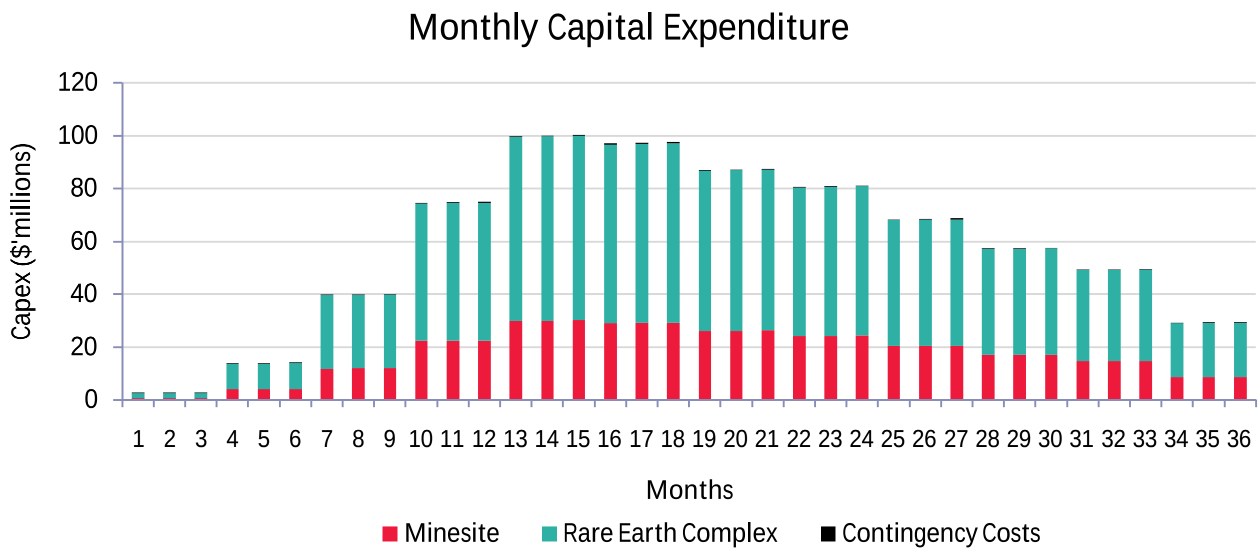
- Costs include fixed and variable costs. These include:
  - Mine site costs including mining costs and beneficiation costs;
  - Transport and logistics costs including both road and rail haulage costs;
  - Rare Earth Complex processing costs;
  - Carbon Dioxide emissions permit price costs; and
  - Fixed costs relating to labour and general overheads.
- Logistics costs have been estimated based on information from prospective service providers and prevailing market rates; and
- Labour rates are based on current relevant industry survey benchmark data.

All costs have been converted to nominal values in the Project Model.

Capital Costs

The Project Model incorporates total capital costs estimated to be approximately $1,912 million. This estimate consists of $345 million in capital costs at the Mine, $1,336 million in capital costs at the Rare Earths Complex, and $231 million in capital costs in Transport and Logistics. The capital costs include a contingency of $270 million and $232 million of indirect costs relating to the Mine, the Rare Earths Complex, and in Transport and Logistics.

Capital costs are incurred over the 36 months project construction period commencing 1 July 2013 and concluding 30 June 2016, as shown below:



Source: Project Model

Economic assumptions

Inflation

As the projections are presented in real terms, the Project Model adopts inflation rate assumptions to convert the cash flows from real to nominal terms. We considered forecasts prepared by economic analysts and other publicly available information including broker consensus to arrive at our inflation rate assumptions. From our analysis target inflation is in the range of 2% to 3% which is consistent with the Reserve Bank of Australia's target inflation rate range. We have adopted a long term inflation rate of 2.5% to convert the cash flows and costs of the Nolans Project from real to nominal terms.

Foreign exchange rate

All REO prices are stated in United States Dollars ("USD") and the forecasts in the Project Model are converted to Australian Dollars ("AUD"). USD to AUD conversions were undertaken using the following foreign exchange rate assumptions:

Period	AUD:USD
To 31 Dec 2012	$1.026
To 31 Dec 2013	$1.063
To 31 Dec 2014	$1.001
To 31 Dec 2015	$0.924
1 Jan 2016 Onwards	$0.853

Source: Bloomberg and BDO Analysis

Royalties and tax

Royalties

The Project Model incorporates the payment of royalties based on 20% of revenue, after direct mining expenses have been deducted.

Corporate tax

The Project Model makes assumptions on corporate tax rate of 30% over the period of the projections, after taking into account any tax losses carried forward.

MRRT

REOs and associated co-products from the Nolans Project will not be taxed under the Mineral Resources Rent Tax.

Funding

The Project Model is based on the Nolans Project being financed entirely through equity and does not take account of any uplift that may result from debt that may be raised through potential project financing. The Company intends that the Nolans Project will be at least partly funded through project finance debt facilities and is currently assessing a number of sources in order to achieve this.

For our valuation we have assumed that the Nolans Project is fully funded by raising new equity through the issue of shares. Based on our QMP analysis in section 10.2, we assumed that new equity is raised through the issue of 9,586 million shares at $0.21 per share (midpoint of our QMP valuation of an Arafura share) to raise approximately $2,013 million or $1,912 million in net proceeds after capital raising costs assumed at 5% of capital raised.

This level of capital raising is expected to be sufficient to fund all capital expenditure requirements for the Nolans Project.

Timing

The Project Model assumes a 36 month construction period beginning 1 July 2013 with completion expected on 30 June 2016. Mining is expected to commence on 1 July 2016 for a 20 year life of mine based on current Measured and Indicated Resources.

BDO

DCF Valuation – Discount rate

We have selected a nominal after tax discount rate in the range of 10.5% to 14.0% to discount the cash flows of the Nolans Project to their present value.

In selecting this range of discount rates we considered the following:

- The rates of return for comparable listed Australian companies;
- The debt to equity ratios of comparable listed Australian companies;
- An appropriate cost of debt; and
- An appropriate target debt to equity ratio.

Given that we have assumed that the Nolans Project is fully equity funded, our discount rate reflects the required cost of equity return to an equity investor.

Details on our discount rate determination are provided in Appendix 3.

10.1.3 DCF Valuation – Discounted cash flow

The estimated value of the Nolans Project is derived under the DCF approach and is sensitive to a number of factors. We have therefore included an analysis to consider the value of the Nolans Project under various scenarios and in applying:

- A change of +/- 20% to REO prices
- A change of +/- 20% to exchange rate
- A change of +/- 20% to REO economic recovery rate
- A change of +/- 20% to operating expenditure
- A change of +/- 20% to capital expenditure
- A discount rate in the range of 9% to 15%.

The following tables set out the valuation outcomes from our DCF analysis.

Sensitivity Analysis					
Flex	NPV (A$m)	NPV (A$m)	NPV (A$m)	NPV (A$m)	NPV (A$m)
	Economic Recovery Rate	Exchange Rate	REO Prices	Operating Expenditure	Capital Expenditure
-20%	1,633.14	4,844.79	1,955.85	3,269.25	3,581.21
-15%	2,031.79	4,369.44	2,273.47	3,259.00	3,492.94
-10%	2,429.78	3,946.84	2,591.40	3,248.73	3,404.67
-5%	2,829.00	3,568.57	2,909.84	3,238.44	3,316.40
0%	3,228.13	3,228.13	3,228.13	3,228.13	3,228.13
5%	3,627.08	2,920.02	3,546.26	3,217.79	3,139.86
10%	4,025.98	2,640.16	3,864.40	3,207.44	3,051.70
15%	4,424.75	2,386.39	4,182.31	3,197.06	2,964.62
20%	4,823.58	2,153.56	4,500.21	3,186.67	2,877.55

Source: BDO Analysis

Discount rate sensitivity							
Discount Rate (%)	9.00	10.00	11.00	12.00	13.00	14.00	15.00
NPV (A$m)	5,007.79	4,324.38	3,736.10	3,228.13	2,788.19	2,406.09	2,073.31

Source: BDO Analysis

In arriving at the market value of the Nolans Project, we have considered the following:

- Sensitivity of the Project Model to foreign exchange rate movements and REO price movements;
- The significant level of capital expenditure required and the uncertainty around how and when this will be obtained;
- The observations made by AMC in relation to the technical assessment of certain key assumptions underlying the Project Model; and
- The risk of Measured and Indicated Resources being converted to Ore Reserves.

Considering the valuation outcomes above, we estimate the fair market value of the Nolans Project to be in the range of $2,400 million to $4,000 million, with a preferred value of $3,200 million.

10.1.4 Other exploration areas

We instructed AMC to provide an independent market valuation of the other exploration assets (excluding the Nolans Project) held by Arafura. The table below provides a summary of this valuation:

Arafura Resources Limited	Low value	Preferred value	High value
Other exploration areas	$m	$m	$m
Aileron/Reynolds Range exploration project	5.30	6.00	7.50
Mount Porter	0.50	0.80	1.00
Frances Creek	0.20	0.28	0.32
Kurinelli Project	0.80	1.00	1.25
Hammer Hill	0.93	1.10	1.27
Jervois	1.30	1.40	1.60
Total	9.03	10.58	12.94

The table above indicates a range of values between $9.03 million and $12.94 million, with a preferred value of $10.58 million.

In valuing Arafura's other exploration assets AMC has relied on a number of valuation methods including the Past Expenditure method, the Joint Venture method and the Yardstick method. We are satisfied with the valuation methodologies adopted by AMC which are in accordance with industry practices and compliant with the requirements of the Valmin Code. A copy of AMC's report is attached at Appendix 4.

10.1.5 Other assets and liabilities

Other assets and liabilities represent the assets and liabilities which have not been specifically adjusted. From review of these other assets and liabilities, outlined in the table below, we do not believe that there is a material difference between their book value and their fair value. The table below represents a summary of the assets and liabilities identified:

Statement of Financial Position	Note	Unaudited as at 30-Jun-12 $	Value of other assets & liabilities as at 30-Jun-12 $
CURRENT ASSETS			
Cash and cash equivalents		19,545,603	19,545,603
Trade and other receivables		531,876	531,876
TOTAL CURRENT ASSETS		20,077,479	20,077,479
NON-CURRENT ASSETS			
Property, plant and equipment		362,011	362,011
Deferred exploration and evaluation costs	(a)	125,475,008	-
Other assets		2,000,000	2,000,000
TOTAL NON-CURRENT ASSETS		127,837,019	2,362,011
TOTAL ASSETS		147,914,498	22,439,490
CURRENT LIABILITIES			
Borrowings		9,260	9,260
Trade and other payables		4,994,842	4,994,842
TOTAL CURRENT LIABILITIES		5,004,102	5,004,102
NON-CURRENT LIABILITIES			
Borrowings		16,030	16,030
Trade and other payables		64,259	64,259
TOTAL NON-CURRENT LIABILITIES		80,289	80,289
TOTAL LIABILITES		5,084,391	5,084,391
NET ASSETS		142,830,107	17,355,099

Note:

(a) The value of the Company's deferred exploration and evaluation costs has been reflected through the DCF valuation under section 10.1.3 and the other exploration assets under section 10.1.4 and has therefore been excluded in the valuation of other assets and liabilities.

10.1.6 Shares on issue

In determining a valuation per share for Arafura, we applied the number of Arafura shares on issue prior to the Placement of 396,004,144 and added the new shares that would be required to be issued in order to fund all capital expenditure requirements for the Nolans Project. From our analysis in section 10.1.2 we have assumed that the total capital expenditure required for the Nolans Project of $1,912 million will be funded through the issue of 9,586 million shares at an issue price of $0.21 per share. The issue price of $0.21 has been determined based on the midpoint of our QMP analysis undertaken in section 10.2. Therefore the total number of shares on issue has been increased by 9,586 million shares to approximately 9,982 million.

10.1.7 Summary of assessment

Arafura Resources Limited Summary of Assessment	Low value $m	Preferred value $m	High value $m
DCF value of Nolans Project	2,400.00	3,200.00	4,000.00
Other exploration assets	9.03	10.58	12.94
Other assets	22.44	22.44	22.44
Other liabilities	(5.08)	(5.08)	(5.08)
Value of Arafura	2,426.39	3,227.94	4,030.30
Number of Arafura shares on issue	9,982,004,144	9,982,004,144	9,982,004,144
Value per share	$ 0.243	$ 0.323	$ 0.404

10.2 QMP for Arafura Securities

To provide a comparison with the valuation of Arafura in Section 10.1, we have also assessed the quoted market price for an Arafura share under the QMP method.

The quoted market value of a company's shares is reflective of a minority interest. A minority interest is an interest in a company that is not significant enough for the holder to have an individual influence in the operations and value of that company.

RG 111.11 suggests that when considering the value of a company's shares for the purposes of approval under Item 7 of s611 the expert should consider a premium for control. An acquirer could be expected to pay a premium for control due to the advantages they will receive should they obtain 100% control of another company. These advantages include the following:

- control over decision making and strategic direction;
- access to underlying cash flows;
- control over dividend policies; and
- access to potential tax losses.

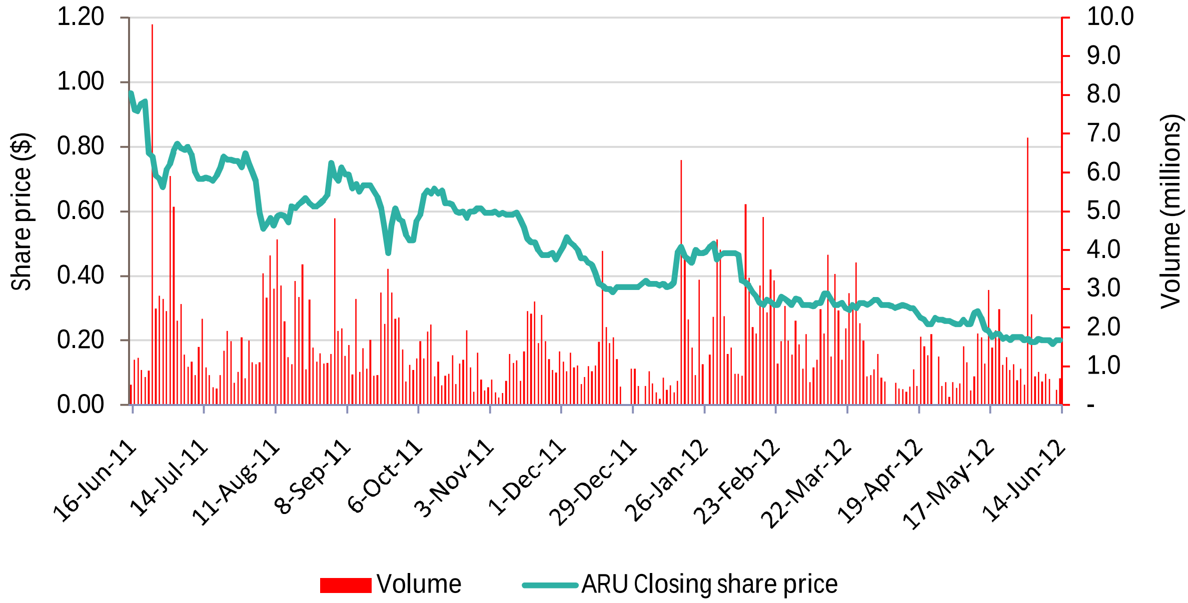
Whilst ECE will not be obtaining 100% of Arafura, RG 111 states that the expert should calculate the value of a target's shares as if 100% control were being obtained. RG 111.13 states that the expert can then consider an acquirer's practical level of control when considering reasonableness. Reasonableness has been considered in section 12.

Therefore, our calculation of the quoted market price of an Arafura share including a premium for control has been prepared in two parts. The first part is to calculate the quoted market price on a minority interest basis. The second part is to add a premium for control to the minority interest value to arrive at a quoted market price value that includes a premium for control.

Minority interest value

Our analysis of the quoted market price of an Arafura share is based on the pricing prior to the announcement of the Placement. This is because the value of an Arafura share after the announcement may include the affects of any change in value as a result of the Placement. However, we have considered the value of an Arafura share following the announcement when we have considered reasonableness in section 12.

Information on the Placement was announced to the market on 19 June 2012 however, we note that Arafura was in a trading halt from 15 June 2012 until the announcement of the Placement. Therefore, the following chart provides a summary of the share price movement over the 12 months to 14 June 2012 which was the last full trading day prior to the announcement.



Source: Bloomberg and BDO Analysis

The daily price of an Arafura share from 15 June 2011 to 14 June 2012 has ranged from a low of $0.19 on 14 June 2012 to a high of $1.02 on 15 June 2011. The highest volume of shares was traded on 23 June 2011 when the Company made an announcement regarding the expansion of the scope of the bankable feasibility study for the Nolans Project. This extended the expected completion date by nine to twelve months and increased the required funding in the order of $50 million. After this announcement the Company's share price decreased to a closing price of $0.78 on the 23 June 2011 and has since continued on a gradual decline until the announcement of the Placement.

During this period a number of announcements were made to the market. The key announcements are set out below:

Date	Announcement	Closing Share Price Following Announcement $ (movement)	Closing Share Price Three Days After Announcement $ (movement)
8-Jun-2012	Upgrade Nolans rare earth resource	0.20 (◄ 0%)	0.20 (◄ 0%)
6-Jun-2012	Cerium Oxide available for customer qualification	0.205 (▲ 5%)	0.19 (▼ 7%)
7-May-2012	Strategic MOU executed with Korean multi-national	0.25 (◄ 0%)	0.25 (◄ 0%)
26-Apr-2012	New Jervois exploration results	0.27 (▲ 8%)	0.26 (▼ 4%)
26-Apr-2012	Quarterly activities and cashflow report	0.27 (▲ 8%)	0.26 (▼ 4%)
26-Mar-2012	Progress report – Customer discussions	0.31 (▲ 5%)	0.315 (▲ 2%)
21-Mar-2012	Successful share purchase plan	0.315 (▲ 2%)	0.31 (▼ 2%)
12-Mar-2012	Major resource upgrade – Nolans Bore	0.315 (▲ 3%)	0.345 (▲ 10%)
22-Feb-2012	Capital raising and update	0.32 (▼ 2%)	0.335 (▲ 5%)
10-Feb-2012	Business progress report	0.385 (▼ 17%)	0.35 (▼ 9%)
1-Feb-2012	Business update	0.45 (▼ 10%)	0.47 (▲ 4%)
31-Jan-2012	Quarterly activities and cashflow report	0.50 (▲ 2%)	0.47 (▼ 6%)
20-Jan-2012	Resources statement progress report	0.45 (▼ 2%)	0.47 (▲ 4%)
17-Jan-2012	Target customers	0.475 (▲ 25%)	0.45 (▼ 5%)
13-Jan-2012	Clarification regarding funding for 2012	0.37 (▲ 1%)	0.49 (▲ 32%)
20-Dec-2011	Market update – discussions between ECE and ARU	0.36 (▼ 3%)	0.365 (▲ 1%)
24-Nov-2011	Cancellation of Rights Issue	0.465 (▼ 3%)	0.465 (◄ 0%)
21-Nov-2011	Drilling update – Nolans Rare Earth resource remains open	0.505 (▼ 2%)	0.465 (▼ 8%)
31-Oct-2011	Quarterly activities and cashflow report	0.61 (▲ 2%)	0.595 (▼ 2%)
18-Oct-2011	Prospectus – Non-renounceable rights issue	0.625 (▼ 6%)	0.60 (▼ 4%)

13-Oct-2011	Rare earths extend to depth at Nolans Bore	0.67 (▲ 2%)	0.625 (▼ 7%)
22-Aug-2011	Additional Rare Earths mineralisation identified at Nolans	0.62 (▲ 2%)	0.625 (▲ 1%)
18-Aug-2011	First LOI signed for REO sales	0.615 (▲ 9%)	0.63 (▲ 2%)
29-Jul-2011	Quarterly activities and cashflow report	0.735 (▼ 3%)	0.72 (▼ 2%)
27-Jul-2011	Board refresh program – changes to Board	0.755 (▼ 1%)	0.78 (▲ 3%)
13-Jul-2011	Priority IPO to ARU shareholders – Global Min Resources	0.70 (▼ 3%)	0.70 (◄ 0%)
23-Jun-2011	Scope of Nolans Rare Earth BFS expanded	0.78 (▼ 17%)	0.70 (▼ 10%)

Source: Bloomberg and BDO Analysis

To provide further analysis of the market prices for an Arafura share, we have also considered the weighted average market price for 10, 30, 60 and 90 day periods to 14 June 2012.

	14 June 2012	10 Days	30 Days	60 Days	90 Days
Closing Price	$0.200				
Weighted Average		$0.200	$0.223	$0.253	$0.292

Source: Bloomberg and BDO Analysis

The above weighted average prices are prior to the date of the announcement of the Placement, to avoid the influence of any increase in the price of Arafura shares that has occurred since the Placement was announced.

An analysis of the volume of trading in Arafura shares for the six months to 14 June 2012 is set out below:

	Share price low	Share price high	Cumulative Volume traded	As a % of Issued capital
1 day	$0.190	$0.200	492,629	0.12%
10 days	$0.190	$0.215	7,601,826	1.92%
30 days	$0.190	$0.295	38,683,501	9.77%
60 days	$0.190	$0.325	67,332,607	17.00%
90 days	$0.190	$0.440	135,544,016	34.23%
180 days	$0.190	$0.700	247,622,900	62.53%

Source: Bloomberg and BDO Analysis

This table indicates that Arafura's shares display a high level of liquidity, with 62.53% of the Company's current issued capital being traded in a six month period. For the quoted market price methodology to be reliable there needs to be a 'deep' market in the shares. RG 111.69 indicates that a 'deep' market should reflect a liquid and active market. We consider the following characteristics to be representative of a deep market:

- Regular trading in a company's securities;
- Approximately 1% of a company's securities are traded on a weekly basis;
- The spread of a company's shares must not be so great that a single minority trade can significantly affect the market capitalisation of a company; and
- There are no significant but unexplained movements in share price.

A company's shares should meet all of the above criteria to be considered 'deep', however, failure of a company's securities to exhibit all of the above characteristics does not necessarily mean that the value of its shares cannot be considered relevant.

In the case of Arafura, the shares appear to be highly liquid and traded on a regular basis. Even though there has been a significant spread in the Company's closing share price over the six month period we consider that the quoted market price can be relied upon as an indicator of the value of an Arafura share when compared to alternative valuation methods. This means that we will consider the quoted market price as well as the net asset value when concluding on the value of Arafura's shares.

Our assessment is that a range of values for Arafura shares based on market pricing, after disregarding post announcement pricing, is between $0.19 and $0.23, with a midpoint value of $0.21.

Control Premium

We have reviewed the announced control premia paid by acquirers for target mining companies listed on the ASX since 2006. A summary of the control premia is noted in the table below:

Year	Number of Transactions	Average Deal Value (A$m)	Average Control Premium (%)
2011	13	710.34	33.07
2010	29	665.30	40.80
2009	33	91.18	34.36
2008	8	591.43	38.87
2007	28	570.63	25.26
2006	29	174.63	22.26
	Median	581.03	33.71
	Mean	467.25	32.44

Source: Bloomberg and BDO Analysis

In arriving at an appropriate control premium to apply we note that observed control premiums can vary due to the:

- Nature and magnitude of non-operating assets
- Nature and magnitude of discretionary expenses

- Perceived quality of existing management
- Nature and magnitude of business opportunities not currently being exploited
- Ability to integrate the acquiree into the acquirer's business
- Level of pre-announcement speculation of the transaction
- Level of liquidity in the trade of the acquiree's securities.

Based on the table above, we observe that across the general Australian mining industry, the average annual control premium paid for effective control transactions over 2006 to 2011 ranged between 22.26% and 40.8% with an average of 32.44%.

Taking the factors above into consideration in applying a control premium to Arafura's quoted market share price we believe an appropriate range to be 25% - 35% which is consistent with our analysis above.

Quoted market price including control premium

Applying a control premium to Arafura's quoted market share price results in the following quoted market price value including a premium for control:

	Low $	Midpoint $	High $
QMP value	0.19	0.21	0.23
Control premium	25%	30%	35%
QMP valuation including a premium for control	0.238	0.273	0.311

Therefore, our valuation of an Arafura share based on the quoted market price method and including a premium for control is between $0.238 and $0.311, with a midpoint value of $0.273.

10.3 Assessment of Arafura Value

The results of the valuations performed are summarised in the table below:

	Low $	Preferred $	High $
Sum-of-parts value (section 10.1)	0.243	0.323	0.404
QMP value (section 10.2)	0.238	0.273	0.311

Based on the results above we consider the value of an Arafura share to be between $0.243 and $0.404, with a preferred value of $0.323.

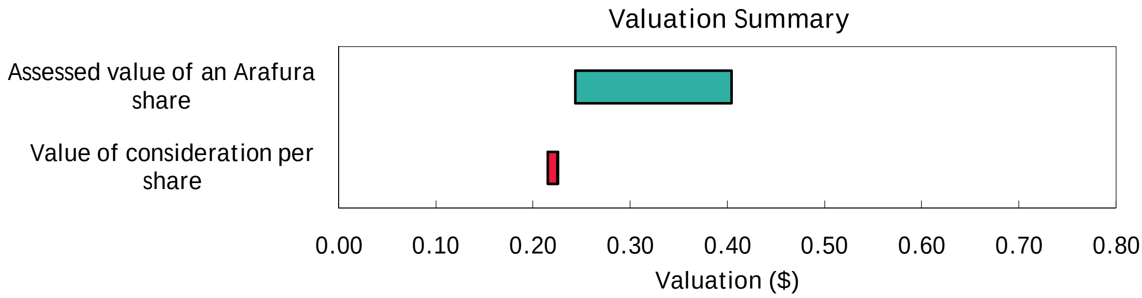
We consider that the sum-of-parts methodology has been deemed the most reliable for this purpose due to the core value of Arafura being in the Nolans Project and other exploration assets that it holds in its balance sheet, for which we have received independent valuations. We have therefore based our valuation of an Arafura share on the sum-of-parts methodology and consider the value of an Arafura share to be between $0.243 and $0.404, with a preferred value of $0.323.

11. Is the Placement fair?

The value of an Arafura share prior to the Placement is compared to the value of the consideration below:

	Ref	Low $	Preferred $	High $
Value of an Arafura share prior to Placement	10.3	0.243	0.323	0.404
Value of consideration per share	4	0.220	0.220	0.220

The above valuation ranges are graphically presented below:



The above pricing indicates that, in the absence of any other relevant information and a superior offer, the Placement is not fair for Shareholders as the value of an Arafura share prior to the Placement is higher than the value of consideration to be received.

12. Is the Placement reasonable?

12.1 Alternative Proposal

We are unaware of any alternative proposal that might offer the Shareholders of Arafura a premium over the value ascribed to, resulting from the Placement.

12.2 Practical Level of Control

If the Placement is approved then ECE will increase its holding in the issued capital of Arafura from 16.27% to a maximum level of 24.86%, assuming no further shares are issued or options exercised.

When shareholders are required to approve an issue that relates to a company there are two types of approval levels. These are general resolutions and special resolutions. A general resolution requires 50% of shares to be voted in favour to approve a matter and a special resolution required 75% of shares on issue to be voted in favour to approve a matter. If the Placement is approved then ECE will not be able to pass special or general resolutions.

Under the 2009 share subscription agreement, ECE were entitled to nominate two persons to be Directors of Arafura. Ms Shasha Lu and Dr Alex Losada-Calderon were subsequently appointed. The number of ECE nominated Directors has now been reduced to one under the terms of the Placement resulting in Dr Alex Losada-Calderon no longer being an ECE nominated Director. However, the current Board have decided he will remain as a Non-Executive Director of the Company.

ECE's control of Arafura following the Placement will be significant when compared to all other shareholders. In our opinion, while ECE will be able to significantly influence the activities of Arafura, it will not be able to exercise a similar level of control as if it held 100% of Arafura.

12.3 Consequences of not approving the Placement

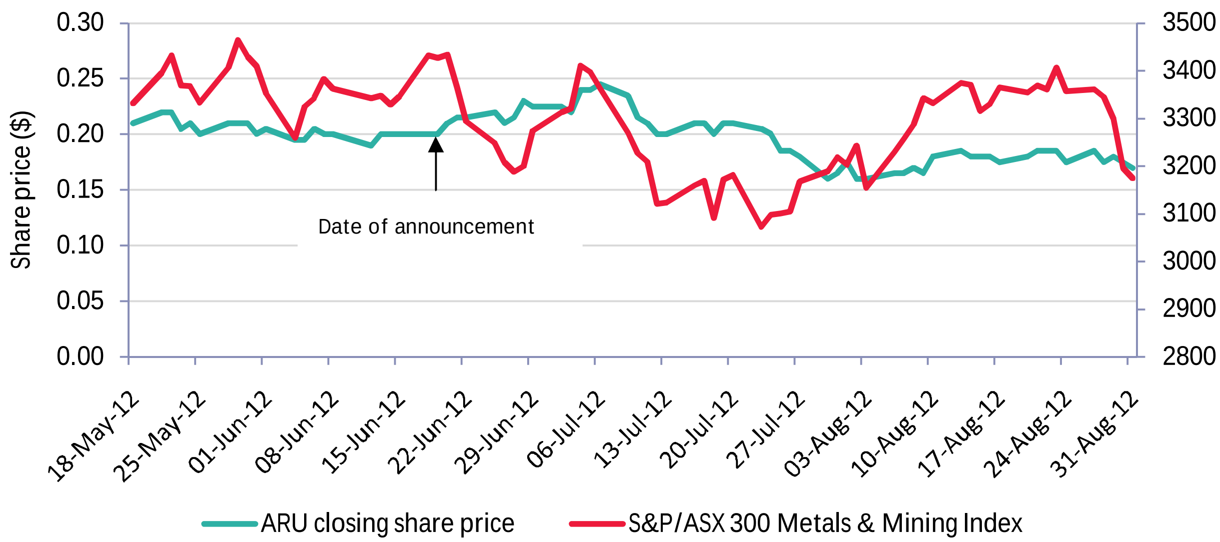
Consequences

If the Placement is not approved then the Company would not receive funds from the issue of the 45,266,500 shares totalling $9.96 million. We have been advised that the funds are to be used to further progress the Company's Nolans Project feasibility study. If the Placement is not approved, the Company would need to pursue other avenues to raise funds in order to achieve this outcome. The Company previously undertook a non-renounceable rights issue which was subsequently cancelled in November 2011 as a result of Arafura's share price falling significantly below the rights offer price. As the Company currently has $19.55 million in cash, it is likely that some form of capital raising will have to be undertaken which may be difficult in the current environment and is very likely to be at a discount to the Placement price.

We have been advised that Arafura has recently lodged a research and development claim with the Australian Taxation Office ("ATO") in respect of the year ended 30 June 2012. This claim is significantly larger than previous research and development claims lodged by the Company and could potentially provide an alternative source of funding. However, the claim is subject to new and more complex criteria than previous claims and is yet to be reviewed by the ATO and AusIndustry. As at the date of this report the Company is uncertain as to the timing and the amount, if any, that will be refunded to the Company. As such, we believe the Placement provides a more secure short term funding source available to the Company in order to progress the Nolans Project feasibility study.

Potential decline in share price

We have analysed movements in Arafura's share price since the Placement was announced on 19 June 2012. A graph of Arafura's share price since the announcement is set out below.



Source: Bloomberg and BDO Analysis

Based on the chart above, it appears that following the announcement, Arafura's closing share price has increased from an average of $0.20 over the previous month to $0.21 on 20 June 2012. The Company's share price continued to rise reaching a high of $0.26 on 5 July 2012.

After 5 July 2012, Arafura's share price began to declined until around 8 August 2012, which was when the Company announced the Nolans Project Update. For comparative purposes we have also showed the S&P/ASX 300 Metals and Mining Index in the graph above. This shows that the index also declined significantly after 5 July 2012. We note that there were no significant company announcements or industry factors that would explain the decline in the Company's share price over the period. Therefore we can conclude that the fall in the Company's share price from 6 July 2012 until 8 August 2012 is likely to be as a result of market conditions rather than the market responding to the Placement in a negative way.

Given the above analysis it is possible that if the Placement is not approved Arafura's share price may potentially decline further.

12.4 Advantages of Approving the Placement

We have considered the following advantages when assessing whether the Placement is reasonable.

Advantage	Description
Immediate capital injection to progress Nolans Project	Arafura requires significant funds in order to complete the feasibility study currently underway for the Nolans Project. The Company previously undertook a non-renounceable rights issue in order to raise these funds but in November 2011 cancelled this and refunded monies to all shareholders who took up their

	entitlements as a result of the share price falling significantly. If the Placement is approved, funds of approximately $9.96 million will be received. The intention of the Company is to utilise the funds received under the Placement to progress its feasibility study for the Nolans Project towards project finance and for working capital purposes.
Continued support from strategic investor	The continued support of a cornerstone investor with the resource backing of ECE may provide strategic advantages for Arafura. Some of these advantages include: - Providing experience and assistance in pursuing project funding necessary to complete the feasibility study for the Nolans Project; - Providing access to potential alternative opportunities for raising the necessary capital expenditure required to develop the Nolans Project; and - Utilising ECE's relationships and expertise in sourcing opportunities and providing customers for the Nolans Project products.
No changes to current operating arrangements	We are not aware of any operational changes that ECE wishes to introduce if the Placement is approved and there has been no indication from ECE that they intend to change Arafura's business as conducted by the current management. ECE's current intentions are: - Continue to be a strategic shareholder in Arafura and to use their relationships and expertise to assist the future development of Arafura's business; - To inject further capital into Arafura on terms and conditions to be agreed with Arafura and to assist with fundraising requirements; and - To make no changes to the employment of any present employees of Arafura.
Guaranteed short term funding source	In the current economic climate the ability to raise funds has proven difficult as reflected by the unsuccessful non-renounceable rights issue undertaken by Arafura in November 2011. The Placement represents a guaranteed short-term funding option for the Company in the current difficult economic environment.

12.5 Disadvantages of Approving the Placement

If the Placement is approved, in our opinion, the potential disadvantages to Shareholders include those listed in the table below:

Disadvantage	Description
Dilution of existing Shareholders' interest	Under the Placement Arafura will issue a total of 45,266,500 shares to ECE. If Shareholders approve the Placement, the current Arafura shareholders' ownership will be diluted from 83.73% to 75.14%. The capacity of shareholders to influence the

	operations of the Company will be reduced. It is important to note that without additional funds Arafura will not be able to complete the feasibility study for the Nolans Project and any alternative funding would also be likely to reduce the interest held by Shareholders.
ECE will gain an increased level of control of Arafura	If the Placement is approved, ECE will increase its shareholding interest from 16.27% to 24.86%, meaning ECE will be able to further influence any voting on the activities of Arafura. A shareholding interest of 24.86% will mean that ECE is likely to have the ability to block special resolutions. This could be detrimental to Shareholders should a vote be made that the majority of Shareholders approved but ECE do not.

13. Conclusion

We have considered the terms of the Placement as outlined in the body of this report and have concluded that the Placement is not fair but reasonable to the Shareholders of Arafura.

In our opinion, the Placement is not fair because the value of an Arafura share prior to the Placement is greater than the value of the consideration being offered by ECE. However, we consider the Placement to be reasonable because the advantages of the Placement to Shareholders are greater than the disadvantages. In particular, Arafura requires funds in the short term to progress the feasibility study for its Nolans Project and the Placement provides a secure alternative in order to achieve this result.

14. Sources of information

This report has been based on the following information:

- Draft Notice of General Meeting and Explanatory Statement on or about the date of this Report;
- Audited financial statements of Arafura for the years ended 30 June 2011 and 30 June 2010;
- Reviewed financial statements for the half year ended 31 December 2011;
- Unaudited management accounts for the year ended 30 June 2012;
- Signed Share Subscription Agreement between Arafura and ECE;
- Nolans Project financial model provided by the management of Arafura;
- Independent Review and Valuation Report of Arafura's mineral assets dated September 2012 performed by AMC Consultants Pty Ltd;
- Share registry information for Arafura;
- Information in the public domain; and
- Discussions with Directors and Management of Arafura.

15. Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of $55,000 (excluding GST and reimbursement of out of pocket expenses). Except for this fee, BDO Corporate Finance (WA) Pty Ltd has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this report.

BDO Corporate Finance (WA) Pty Ltd has been indemnified by Arafura in respect of any claim arising from BDO Corporate Finance (WA) Pty Ltd's reliance on information provided by the Arafura, including the non provision of material information, in relation to the preparation of this report.

Prior to accepting this engagement BDO Corporate Finance (WA) Pty Ltd has considered its independence with respect to Arafura and ECE and any of their respective associates with reference to ASIC Regulatory Guide 112 "Independence of Experts". In BDO Corporate Finance (WA) Pty Ltd's opinion it is independent of Arafura and ECE and their respective associates.

The provision of our services is not considered a threat to our independence as auditors under Professional Statement APES 110 – Professional Independence. The services provided have no material impact on the financial report of Arafura.

A draft of this report was provided to Arafura and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this report as a result of this review.

BDO is the brand name for the BDO International network and for each of the BDO Member firms.

BDO (Australia) Ltd, an Australian company limited by guarantee, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of Independent Member Firms. BDO in Australia, is a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International).

16. Qualifications

BDO Corporate Finance (WA) Pty Ltd has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions.

BDO Corporate Finance (WA) Pty Ltd holds an Australian Financial Services Licence issued by the Australian Securities and Investment Commission for giving expert reports pursuant to the Listing rules of the ASX and the Corporations Act.

The persons specifically involved in preparing and reviewing this report were Sherif Andrawes and Adam Myers of BDO Corporate Finance (WA) Pty Ltd. They have significant experience in the preparation of independent expert reports, valuations and mergers and acquisitions advice across a wide range of industries in Australia and were supported by other BDO staff.

Sherif Andrawes is a Fellow of the Institute of Chartered Accountants in England & Wales and a Member of the Institute of Chartered Accountants in Australia. He has over twenty five years experience working in the audit and corporate finance fields with BDO and its predecessor firms in London and Perth. He has been responsible for over 170 public company independent expert's reports under the Corporations Act or ASX Listing Rules. These experts' reports cover a wide range of industries in Australia. Sherif Andrawes is the Chairman of BDO in Western Australia.

Adam Myers is a member of the Australian Institute of Chartered Accountants. Adam's career spans 14 years in the Audit and Assurance and Corporate Finance areas. Adam has considerable experience in the preparation of independent expert reports and valuations in general for companies in a wide number of industry sectors.

17. Disclaimers and consents

This report has been prepared at the request of Arafura for inclusion in a Notice of Meeting and Explanatory Statement which will be sent to all Arafura Shareholders. Arafura engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider the proposal to issue 45,266,500 shares at an issue price of $0.22 per share to ECE Nolans Investment Company Proprietary Limited.

BDO Corporate Finance (WA) Pty Ltd hereby consents to this report accompanying the above Notice of Meeting and Explanatory Statement. Apart from such use, neither the whole nor any part of this report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO Corporate Finance (WA) Pty Ltd.

BDO Corporate Finance (WA) Pty Ltd takes no responsibility for the contents of the Notice of Meeting and Explanatory Statement other than this report.

BDO Corporate Finance (WA) Pty Ltd has not independently verified the information and explanations supplied to us, nor has it conducted anything in the nature of an audit or review of Arafura or ECE in accordance with standards issued by the Auditing and Assurance Standards Board. However, we have no reason to believe that any of the information or explanations so supplied are false or that material information has been withheld. It is not the role of BDO Corporate Finance (WA) Pty Ltd acting as an independent expert to perform any due diligence procedures on behalf of the Company. The Directors of the Company are responsible for conducting appropriate due diligence in relation to ECE. BDO Corporate Finance (WA) Pty Ltd provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process.

With respect to taxation implications it is recommended that individual Shareholders obtain their own taxation advice, in respect of the Placement, tailored to their own particular circumstances. Furthermore, the advice provided in this report does not constitute legal or taxation advice to the Shareholders of Arafura, or any other party.

BDO Corporate Finance (WA) Pty Ltd has also considered and relied upon independent valuations for mineral assets held by Arafura.

The independent specialist engaged for the mineral asset valuation, AMC Consultants, possess the appropriate qualifications and experience in the industry to make such assessments. The approaches adopted and assumptions made in arriving at their valuation are considered appropriate for this report. We have received consent from the valuer for the use of their valuation report in the preparation of this report and to append a copy of their report to this report.

The statements and opinions included in this report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of this engagement are such that BDO Corporate Finance (WA) Pty Ltd has no obligation to update this report for events occurring subsequent to the date of this report.

Yours faithfully

BDO CORPORATE FINANCE (WA) PTY LTD

Sherif Andrawes	Adam Myers
Director	Director

Appendix 1 – Glossary of Terms

Reference	Definition
The Act	The Corporations Act
AMC	AMC Consultants Pty Ltd
Arafura	Arafura Resources Limited
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
BDO	BDO Corporate Finance (WA) Pty Ltd
The Company	Arafura Resources Limited
DCF	Discounted Future Cash Flows
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
ECE	ECE Nolans Investment Company Pty Ltd
ECE Bureau	East China Mineral Exploration & Development Bureau
FME	Future Maintainable Earnings
NAV	Net Asset Value
Our Report	This Independent Expert's Report prepared by BDO
Placement	The proposal under which ECE will subscribe for 45,266,500 shares at an issue price of $0.22 per share which will provide $9.96 million in funding to Arafura
REO	Rare Earth Oxides
RG111	Content of expert reports (March 2011)
RG112	Independence of experts (March 2011)
Shareholders	Shareholders of Arafura not associated with ECE

Appendix 2 – Valuation Methodologies

Methodologies commonly used for valuing assets and businesses are as follows:

1 *Net asset value ("NAV")*

Asset based methods estimate the market value of an entity's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- Orderly realisation of assets method
- Liquidation of assets method
- Net assets on a going concern method

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to entity holders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not be appropriate. The net assets on a going concern method estimates the market values of the net assets of an entity but does not take into account any realisation costs.

Net assets on a going concern basis are usually appropriate where the majority of assets consist of cash, passive investments or projects with a limited life. All assets and liabilities of the entity are valued at market value under this alternative and this combined market value forms the basis for the entity's valuation.

Often the FME and DCF methodologies are used in valuing assets forming part of the overall Net assets on a going concern basis. This is particularly so for exploration and mining companies where investments are in finite life producing assets or prospective exploration areas.

These asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. Asset based methods are appropriate when an entity is not making an adequate return on its assets, a significant proportion of the entity's assets are liquid or for asset holding companies.

2 *Quoted Market Price Basis ("QMP")*

A valuation approach that can be used in conjunction with (or as a replacement for) other valuation methods is the quoted market price of listed securities. Where there is a ready market for securities such as the ASX, through which shares are traded, recent prices at which shares are bought and sold can be taken as the market value per share. Such market value includes all factors and influences that impact upon the ASX. The use of ASX pricing is more relevant where a security displays regular high volume trading, creating a "deep" market in that security.

3 *Capitalisation of future maintainable earnings ("FME")*

This method places a value on the business by estimating the likely FME, capitalised at an appropriate rate which reflects business outlook, business risk, investor expectations, future growth prospects and other entity specific factors. This approach relies on the availability and analysis of comparable market data.

The FME approach is the most commonly applied valuation technique and is particularly applicable to profitable businesses with relatively steady growth histories and forecasts, regular capital expenditure requirements and non-finite lives.

The FME used in the valuation can be based on net profit after tax or alternatives to this such as earnings before interest and tax ("EBIT") or earnings before interest, tax, depreciation and amortisation ("EBITDA"). The capitalisation rate or "earnings multiple" is adjusted to reflect which base is being used for FME.

4 *Discounted future cash flows ("DCF")*

The DCF methodology is based on the generally accepted theory that the value of an asset or business depends on its future net cash flows, discounted to their present value at an appropriate discount rate (often called the weighted average cost of capital). This discount rate represents an opportunity cost of capital reflecting the expected rate of return which investors can obtain from investments having equivalent risks.

Considerable judgement is required to estimate the future cash flows which must be able to be reliably estimated for a sufficiently long period to make this valuation methodology appropriate.

A terminal value for the asset or business is calculated at the end of the future cash flow period and this is also discounted to its present value using the appropriate discount rate.

DCF valuations are particularly applicable to businesses with limited lives, experiencing growth, that are in a start up phase, or experience irregular cash flows.

5 *Market Based Assessment*

The market based approach seeks to arrive at a value for a business by reference to comparable transactions involving the sale of similar businesses. This is based on the premise that companies with similar characteristics, such as operating in similar industries, command similar values. In performing this analysis it is important to acknowledge the differences between the comparable companies being analysed and the company that is being valued and then to reflect these differences in the valuation.

Appendix 3 –Discount Rate

Determining the correct discount rate, or cost of capital, for a business requires the identification and consideration of a number of factors that affect the returns and risks of a business, as well as the application of widely accepted methodologies for determining the returns of a business.

The discount rate applied to the forecast cash flows from a business represents the financial return that will be before an investor would be prepared to acquire (or invest in) the business.

The capital asset pricing model ("CAPM") is commonly used in determining the market rates of return for equity type investments and project evaluations. In determining a business' weighted average cost of capital ("WACC") the CAPM results are combined with the cost of debt funding. WACC represents the return required on the business, whilst CAPM provides the required return on an equity investment.

Cost of Equity and Capital Asset Pricing Model

CAPM is based on the theory that a rational investor would price an investment so that the expected return is equal to the risk free rate of return plus an appropriate premium for risk. CAPM assumes that there is a positive relationship between risk and return, that is, investors are risk averse and demand a higher return for accepting a higher level of risk.

CAPM calculates the cost of equity and is calculated as follows:

CAPM	
K_e	$= R_f + \beta \times (R_m - R_f)$
Where:	
K_e	= expected equity investment return or cost of equity in nominal terms
R_f	= risk free rate of return
R_m	= expected market return
$R_m - R_f$	= market risk premium
β	= equity beta

The individual components of CAPM are discussed below.

Risk Free Rate (R_f)

The risk free rate is normally approximated by reference to a long term government bond with a maturity equivalent to the timeframe over which the returns from the assets are expected to be received. Having regard to the period of the operations we have used the yield to maturity on the 10 year Commonwealth Government Bond as at 3 September 2012 which was 2.99% per annum.

Market Risk Premium ($R_m - R_f$)

The market risk premium represents the additional return that investors expect from an investment in a well-diversified portfolio of assets. It is common to use a historical risk premium, as expectations are not observable in practice.

We have noted that the current market risk premium is 8%. This has been sourced from Bloomberg. The market risk premium is derived on the basis of capital weighted average return of all members of the S&P 200 Index minus the risk free rate is dependent on the ten year government bond rates. For the purpose of our report we have adopted a market risk premium of 6% to 8%.

Equity Beta

Beta is a measure of the expected correlation of an investment's return over and above the risk free rate, relative to the return over and above the risk free rate of the market as a whole. A beta greater than one implies that an investment's return will outperform the market's average return in a rising market and underperform the market's average return in a falling market. On the other hand, a beta less than one implies that the business' performance compared to that of a business whose beta is greater than one will provide an inverse relationship in terms of the market's average return.

Equity betas are normally either an historical beta or an adjusted beta. The historical beta is obtained from the linear regression of a stock's historical data and is based on the observed relationship between the security's return and the returns on an index. An adjusted beta is calculated based on the assumption that the relative risk of the past will continue into the future, and hence derived from the historical data. It is then modified by the assumption that a stock will move towards the market over time, taking into consideration the industry risk factors which make the operating risk of the investment project greater or less risky than comparable listed companies when assessing the equity beta for an investment project.

It is important to note that it is not possible to compare the equity betas of different companies without having regard to their gearing levels. Thus, a more valid analysis of betas can be achieved by "ungearing" the equity beta (β_a) by applying the following formula:

$\beta_a = \beta \ / \ (1+(D/E \times (1-t))$

In order to assess the appropriate equity beta for the Nolans Project we have also had regard to the equity betas of listed companies involved in similar activities in similar industry sectors. The geared betas below have been calculated using daily data over a two-year period.

Company	Market Capitalisation ($)	Geared Beta (β)	Gross Debt/Equity (%)	Ungeared Beta (βa)
Lynas Corporation Ltd	1,097,618,652	2.04	34%	1.65
Northern Minerals Ltd	66,515,366	1.90	0%	1.90
Kimberly Rare Earths Ltd	8,987,483	1.15	0%	1.15
Hastings Rare Metals Ltd	14,888,298	1.03	0%	1.03
Kidman Resources Limited	16,883,226	1.25	0%	1.25
Mean	391,040,500	1.47	7%	1.40
Median	66,515,366	1.25	0%	1.25

Selected Beta (β)

In selecting an appropriate Beta for the Nolans Project, we have considered the similarities between the projects and the comparable companies selected above. The comparable similarities and differences noted are:

- the comparable companies' mining and exploration assets have varying risk profiles depending on the maturity of the assets and the stages of production;
- several companies having been producing for a considerable time period;

- several comparable companies are still in the prefeasibility and evaluation stage; and
- several companies above have been the subject of significant corporation actions.

Having regard to the above we consider that an appropriate ungeared beta to apply to the Nolans Project is between 1.25 and 1.40 and have based this on the ungeared betas of companies that we consider to be comparable to Arafura.

We have assumed that the Nolans Project will be entirely funded by equity, therefore there is no need for regearing the project beta.

Cost of Equity

On this basis we have assessed the cost of equity to be:

Input	Nolans Project	
	Low	High
Risk free rate of return	2.99%	2.99%
Equity market risk premium	6.00%	8.00%
Beta	1.25	1.40
Cost of Equity	10.49%	14.19%

Weighted Average Cost of Capital

The WACC represents the market return required on the total assets of the undertaking by debt and equity providers. WACC is used to assess the appropriate commercial rate of return on the capital invested in the business, acknowledging that normally funds invested consist of a mixture of debt and equity funds. Accordingly, the discount rate should reflect the proportionate levels of debt and equity relative to the level of security and risk attributable to the investment.

In calculating WACC there are a number of different formulae which are based on the definition of cash flows (i.e., pre-tax or post-tax), the treatment of the tax benefit arising through the deductibility of interest expenses (included in either the cash flow or discount rate), and the manner and extent to which they adjust for the effects of dividend imputation. The commonly used WACC formula is the post-tax WACC, without adjustment for dividend imputation, which is detailed in the below table.

CAPM

$$WACC = \frac{E}{E+D} K_e + \frac{D}{D+E} K_d (1-t)$$

Where:

K_e	= expected return or discount rate on equity
K_d	= interest rate on debt (pre-tax)
T	= corporate tax rate
E	= market value of equity
D	= market value of debt
(1- t)	= tax adjustment

Gearing

Before WACC can be determined, the proportion of funding provided by debt and equity (i.e., gearing ratio) must be determined. The gearing ratio adopted should represent the level of debt that the asset can reasonably sustain (i.e., the higher the expected volatility of cash flows, the lower the debt levels which can be supported). The optimum level of gearing will differentiate between assets and will include:

- the variability in earnings streams;
- working capital requirements;
- the level of investment in tangible assets; and
- the nature and risk profile of the tangible assets.

As described earlier, the Nolans Project will be entirely funded by equity. As such, there is no element of debt that needs to be reflected in the WACC. The appropriate discount rate for the Nolans Project therefore consists entirely of the cost of equity.

Calculation *of WACC*

Based on the above inputs we have calculated the WACC for the Nolans Project to be between 10.50% and 14.00%.

Comparable Company	Description
Lynas Corporation Ltd	Lynas Corporation Limited explores and mines for rare earth minerals such as cerium and neodymium. Lynas Corporation has commenced the production of rare earth minerals at its concentration plant located in Mt Weld, Western Australia. The concentration plant was commissioned in May 2011.
Northern Minerals Ltd	Northern Minerals Limited is a mineral exploration company. The company is primarily focused on Uranium and Rare Earth exploration and development in Western Australia and the Northern Territory. The company's leading project is the Browns Range for which it is targeting production in 2015.
Kimberly Rare Earths Ltd	Kimberley Rare Earths Ltd. explores for rare earths. The company operates on the Cummins Range in the East Kimberley region of Western Australia. The company's Cummings Range Rare Earth Project has an independently estimated JORC compliant inferred resource.
Hastings Rare Metals Ltd	Hastings Rare Metals, Ltd. provides investments in the minerals and resources sector. The Company explores for rare metals and earths. The company intends to complete a bankable feasible study for its 100% owned Hastings Project in Q2 2014 and commence production in 2016.
Kidman Resources Limited	Kidman Resources Ltd. is a mineral exploration and production company. The company is focused on the exploration and development of copper, gold and rare earth element prospects. The company's rare earth minerals project, based in the Northern Territory, has obtained approval for a drilling program to commence.

Appendix 4 – Independent Review & Valuation Report

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REVIEW AND VALUATION OF MINERAL ASSETS

ARAFURA RESOURCES LIMITED

812016

September 2012

EXECUTIVE SUMMARY

Arafura Resources Limited (Arafura) (the Commissioning Entity) has engaged BDO Corporate Finance (WA) Pty Ltd (BDO) to prepare an Independent Expert's Report (IER) in relation to a proposed issue of shares to ECE Nolans Investment Company Proprietary Ltd (ECE).

AMC Consultants Pty Ltd (AMC) has been engaged to prepare an independent technical specialist report (ITSR) to be incorporated by BDO into the IER for the consideration of Arafura security holders.

This report provides independent valuations of the relevant mineral assets. The valuations included in this report have been prepared in accordance with the Valmin Code[1] and are considered by AMC to be Technical Values as defined in the Valmin Code[1].

AMC has been asked to provide an assessment and valuation of Arafura's mineral assets.

AMC's instruction from BDO was to provide the following (taken from letter dated 8 August 2012):

"1. An independent market valuation of the following exploration and evaluation assets held by Arafura:
   - Jervois vanadium project
   - Aileron/Reynolds Range exploration project
   - Kurinelli/West Davenport exploration project
   - Hammer Hill Joint Venture
   - Mt Porter gold project

2. A technical assessment of certain key assumptions underlying the Nolans Rare Earths Project Cash Flow Model ("Nolans Model"). This assessment is to involve the review and provision of input on the reasonableness of the following assumptions adopted in the Nolans Model:
   - Production inputs (including tonnes, REO grade, average REO composition, and recovery rates),
   - Mining operating costs (including direct operating expenditure, beneficiation costs and fixed costs),
   - Capital expenditure (including construction costs of both the Minesite and the Rare Earths Complex as well as the construction schedule,
   - Transports costs, and
   - Royalties."

[1] Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports. The VALMIN Code 2005 Edition, Prepared by the VALMIN Committee, a joint committee of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Mineral Industry Consultants Association with the participation of the Australian Securities and Investment Commission, the Australian Stock Exchange Limited, the Minerals Council of Australia, the Petroleum Exploration Society of Australia, the Securities Association of Australia and representatives from the Australian finance sector.

For the purpose of this valuation, the terms “Technical Value” and “Market Value” are equivalent.

In subsequent communications it was confirmed that an independent valuation of the Frances Creek and Pamela exploration assets was also to be included in this assignment (e-mail from BDO dated 27 August 2012).

AMC has not visited any of the project areas for this 2012 valuation. However, site visits to the Nolans Bore, Mt Porter, and Frances Creek areas were completed by AMC in 2006 for the purpose of a technical review and valuation at the time of the demerger of uranium assets. In addition, AMC personnel have undertaken site visits to Nolans Bore in September 2011 and April 2012. AMC has been advised by Arafura that no significant development has occurred at any of the other exploration project sites in the interim; therefore, it was felt that there would be no material benefit from re-visiting the prospects at this time.

AMC has reviewed relevant exploration documents, public announcements by Arafura and related parties, information on Arafura’s website and on websites of related parties, and discussed the projects with senior staff of Arafura. AMC has been provided with independent tenement reports from Australian Mining & Exploration Title Services (AMETS).

The estimates of value have been obtained by typical methods applied to exploration and developing assets. They do not take into account any recent volatility of the share market for exploration and mining companies other than in respect of the impact on values likely to be reached by arm’s length transactions for exploration and mining projects between industry participants.

The methods of valuation used include the past expenditure method, the actual and comparable transaction methods (including the value per unit area approach), the joint venture method, and the yardstick method.

AMC has not audited mineral resources or other estimates of tonnage and grade but has aimed to satisfy itself that these estimates have been prepared in accordance with proper industry standards and are based on acceptable quality and reliability of data. In the case of the Arafura assets, AMC has found that resource estimates have been prepared using accepted industry practice and have been classified and reported in accordance with the JORC Code[2].

Values are effective at the date of this report and based on information current to 12 September 2012. Monetary values are in mid-2012 Australian dollars except where noted.

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2 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code 2004 Edition, Effective December 2004, Prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists, and Minerals Council of Australia (JORC).

Technical Values estimated by AMC are summarised as follows:

Project	**Value Range ($M)**	**Preferred Value ($M)**
Aileron / Reynolds Range (excl. Nolans Bore)	5.30 – 7.50	6.00
Mt Porter	0.50 – 1.00	0.80
Frances Creek	0.20 – 0.32	0.28
Kurinelli	0.80 – 1.25	1.00
Hammer Hill	0.93 – 1.27	1.10
Jervois	1.30 – 1.60	1.40
Total	**9.03 – 12.94**	**10.58**

Following a review of the Nolans Model, AMC concludes that the Nolans Model is suitable at this interim stage of the feasibility assessment, albeit providing a somewhat conservative view.

QUALITY CONTROL

The signing of this statement confirms this report has been prepared and checked in accordance with the AMC Peer Review Process. AMC's Peer Review Policy can be viewed at www.amcconsultants.com.

Project Manager	The signatory has given permission to use their signature in this AMC document Sharron Sylvester	13 September 2012
Peer Reviewer	The signatory has given permission to use their signature in this AMC document Dean Carville	13 September 2012

IMPORTANT INFORMATION ABOUT THIS REPORT

Confidentiality

This document and its contents are confidential and may not be disclosed, copied, quoted or published unless AMC Consultants Pty Ltd (AMC) has given its prior written consent.

AMC accepts no liability for any loss or damage arising as a result of any person other than the named client acting in reliance on any information, opinion or advice contained in this document.

This document may not be relied upon by any person other than the client, its officers and employees.

Information

AMC accepts no liability and gives no warranty as to the accuracy or completeness of information provided to it by or on behalf of the client or its representatives and takes no account of matters that existed when the document was transmitted to the client but which were not known to AMC until subsequently.

Currency

This document supersedes any prior documents (whether interim or otherwise) dealing with any matter that is the subject of this document.

Recommendations

AMC accepts no liability for any matters arising if any recommendations contained in this document are not carried out, or are partially carried out, without further advice being obtained from AMC.

Outstanding Fees

No person (including the client) is entitled to use or rely on this document and its contents at any time if any fees (or reimbursement of expenses) due to AMC by its client are outstanding. In those circumstances, AMC may require the return of all copies of this document.

Public Reporting Requirements

If a Client wishes to publish a mineral resource or ore / mineral reserve estimate prepared by AMC, it must first obtain the Competent / Qualified Person's written consent, not only to the estimate being published but also to the form and context of the published statement. The published statement must include a statement that the Competent / Qualified Person's written consent has been obtained.

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APPENDICES

Distribution list:

1 copy to Mr Gavin Lockyer, Arafura Resources Ltd
1 copy to Mr Sherif Andrawes, BDO Corporate Finance (WA) Pty Ltd
1 copy to AMC Adelaide office

1 INTRODUCTION

Arafura Resources Limited (Arafura), the Commissioning Entity (as defined in the Valmin Code[3]), has engaged BDO Corporate Finance (WA) Pty Ltd (BDO) to prepare an Independent Expert's Report (IER) in relation to a proposed issue of shares to ECE Nolans Investment Company Proprietary Ltd (ECE).

AMC Consultants Pty Ltd (AMC) has been engaged to prepare an independent technical specialist report (ITSR) to be incorporated by BDO into the IER for the consideration of Arafura security holders.

The mineral assets held by Arafura relate to a mix of:

- A project for which the extent of exploration work is sufficient to enable a near-term decision to develop (the Mt Porter project), although development is not currently being considered.
- A project for which a robust resource has been demonstrated, and other work relating to potential feasibility of a mining operation has been undertaken in 2012 (the Nolans Bore rare earth project).
- Several projects which are of an early exploration nature (Aileron/Reynolds Range, Frances Creek, Kurinelli, Hammer Hill, Jervois, and Pamela).

[3] Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports. The VALMIN Code 2005 Edition, Prepared by the VALMIN Committee, a joint committee of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Mineral Industry Consultants Association with the participation of the Australian Securities and Investment Commission, the Australian Stock Exchange Limited, the Minerals Council of Australia, the Petroleum Exploration Society of Australia, the Securities Association of Australia and representatives from the Australian finance sector.

2 VALUATION METHODS

The valuation of mining projects that are in operation, or for which an ore reserve has been estimated together with completion of a feasibility or pre-feasibility study, is usually and preferably based on discounted cash flow (DCF) method. The DCF method allows the estimation of a net present value (NPV) based on future cash flow projections discounted for time. NPVs are usually given on an after tax basis.

Of Arafura's assets, the DCF method has most application to the Nolans Bore project. Mineral resources have been defined for this project and, subject to updated metallurgical testing and negotiation of a treatment route, information is adequate to enable the estimation of an ore reserve and the determination of likely economic parameters.

AMC's instruction from BDO was to provide the following (taken from letter dated 8 August 2012):

"1. An independent market valuation of the following exploration and evaluation assets held by Arafura:
   - Jervois vanadium project
   - Aileron/Reynolds Range exploration project
   - Kurinelli/West Davenport exploration project
   - Hammer Hill Joint Venture
   - Mt Porter gold project

2. A technical assessment of certain key assumptions underlying the Nolans Rare Earths Project Cash Flow Model ("Nolans Model"). This assessment is to involve the review and provision of input on the reasonableness of the following assumptions adopted in the Nolans Model:
   - Production inputs (including tonnes, REO grade, average REO composition and recovery rates),
   - Mining operating costs (including direct operating expenditure, beneficiation costs and fixed costs),
   - Capital expenditure (including construction costs of both the Minesite and the Rare Earths Complex as well as the construction schedule,
   - Transports costs, and
   - Royalties."

AMC's brief did not require it to assess the non-mineral assets and liabilities of Arafura, nor to determine its position in regard to deductions available against future liabilities for income taxes.

AMC has valued Arafura's mineral assets using one or more of the methods summarised below. The approach used for exploration projects is subjective and involves judgement after application of as many of the methods that are considered relevant.

- The past expenditure method, which applies a judgement of effectiveness of past exploration and of prospectivity enhancement by applying a prospectivity enhancement multiple (PEM) to past exploration expenditure. For projects where tenements have been acquired over prospective geology but exploration is at a very early stage, the use of past expenditures may not adequately reflect value.
- The joint venture method, which involves the use of actual or comparable transactions as a basis to estimate value.
  - For exploration projects, many such transactions involve farm-in or joint venture deals which assign a deemed expenditure to the interest of the farm-inee or vendor. If the earning expenditure was unconditional and to be expended in the short term, that deemed expenditure would usually assign a value to the project at the time of the transaction. However, as such transactions do not bind the farm-inor or buyer to the full earning expenditure and provide for a number of years to complete that expenditure, the value indicated by the deemed expenditure needs to be discounted to account for both time and a subjective judgement of the probability that the earning expenditure will be completed.

    The deemed expenditure measures the value placed on the vendor's interest at the time of agreement if it can be assumed that the earning expenditure will be completed, in accordance with the formula:

    $$\text{Deemed Expenditure (\$)} = \frac{\text{Vendor's \% interest at completion of earn-in}}{\text{Buyer's \% interest at completion of earn-in}} \times \text{Buyer's earn-in obligation (\$)}$$

    As the vendor's interest at the time of the deal is usually 100% of the project, the method values 100% of the project prior to the commencement of the earning expenditure.

    For one of Arafura's exploration assets (Jervois) there is a current transaction of this nature which enables assessment of the value of Arafura's interest.

  For other projects, the method has been used by assessing comparable transactions for other exploration areas of a similar nature. Those that were considered for valuations described in this report are listed in Appendix A.
- Use of value per square kilometre (km^2) of tenement derived from an assessment of recent comparable transactions in similar geological terrains. For the Arafura projects that were assessed using this approach, the comparable transactions are those relating to large tenement areas in remote parts of Australia such as Northern Territory and Western Australia where work is at an early stage and/or where there has been limited encouragement from past exploration.
- Use of yardstick values where there are resource estimates within the tenements and an estimate of value can be reasonably applied to the number of units of metal contained in the resource from a database of transactions for similar projects. This approach was used for Mt Porter.
- An expected value approach where there is sufficient information to enable an indicative DCF calculation and an assessment of additional risk associated with the status of the project. This approach has not been used for any valuations in this report.

Where more than one method of valuation has been used, AMC has selected a value range which is usually rounded to significant figures and does not usually include the outliers of the various individual valuations. The impact of taxation, either as a benefit for exploration expenditure or as a possible deduction to economic value if a mine results, is considered to be inherent in the final value chosen for projects valued by the exploration valuation methods.

In assessing a fair market value, the Valmin Code[3] considers both a Technical Value and a Strategic Value, the latter being a premium or discount to the former. AMC considers that the values estimated represent a measure of future economic worth or of sale value of the project as a whole on an arm's length basis to a hypothetical third party in the mining industry. It has considered the recent loss of momentum in the industry in the value of exploration projects. The indications of portfolio value that are implicit in recent volatile share market capitalisation of many exploration companies from which lower values could be attributed to some exploration assets has not been taken into account. In this respect, AMC considers the values to be Technical Values.

Values are considered to be effective at the date of this report and are based on information current to 12 September 2012.

Monetary figures are expressed in mid-2012 Australian dollar terms except where noted to the contrary.

3 TENEMENTS

Arafura has commissioned Cristel Woelfel of Australian Mining & Exploration Title Services (AMETS) to provide a complete tenement register indicating the current status of each of the tenements, and details of landowners and native title claimants. AMC has reviewed all information supplied by AMETS, and the matters relating to the tenure, including the impact of native title and other issues concerning Aboriginal interests. AMC is satisfied that AMETS meets the Valmin Code[3] requirements of experience and competence.

AMETS has not provided details of any contingent liabilities or obligations or the like that may impact on AMC's valuations in this report other than those noted herein and considered during the valuation process.

Titles subject of this report (held by Arafura, unless otherwise stated) are:

Aileron/Reynolds Range:

	Exploration Licences (EL) 27335, 27336, 27337, 28473, 28498, and 28547
	ELs 24548 and 24741 (held by NuPower Resources Limited (NuPower) – Arafura has non-uranium rights)
	EL applications (ELA) 29227, 29503, and 29509
	Mineral Lease (ML) application 26659 (held by Arafura Rare Earths Pty Ltd)
Mt Porter:	Exploration Licence in Retention (ELR) 116
	ML 23839
Frances Creek:	EL 23237
	EL 10137 (held by Territory Resources Ltd (Territory) – Arafura has gold rights)
	MLs 24727[4], 25087[4], 25088[4], 25529[4], 27225[4] and 27228[4] (held by Territory – Arafura has gold rights)
	ML applications (MLA) 27226[4] and 27230[4] (held by Territory – Arafura has gold rights)
	Mineral Authority (MA) 389 (held by Frances Creek Pty Ltd (FCPL) – Arafura has gold rights)
	MLs 27227[5] and 27229[5] (held by FCPL – Arafura has gold rights)
Kurinelli:	MA 74
	Mineral Claim Central (MCC) 950 to 953 inclusive.
Hammer Hill:	ELs 9725 and 10136
Jervois:	ELs 10215 and 26812
Pamela:	ELA 25754

4 Where coincident with EL 10137 or the now-cancelled EL 22270

5 Where coincident with MA 389

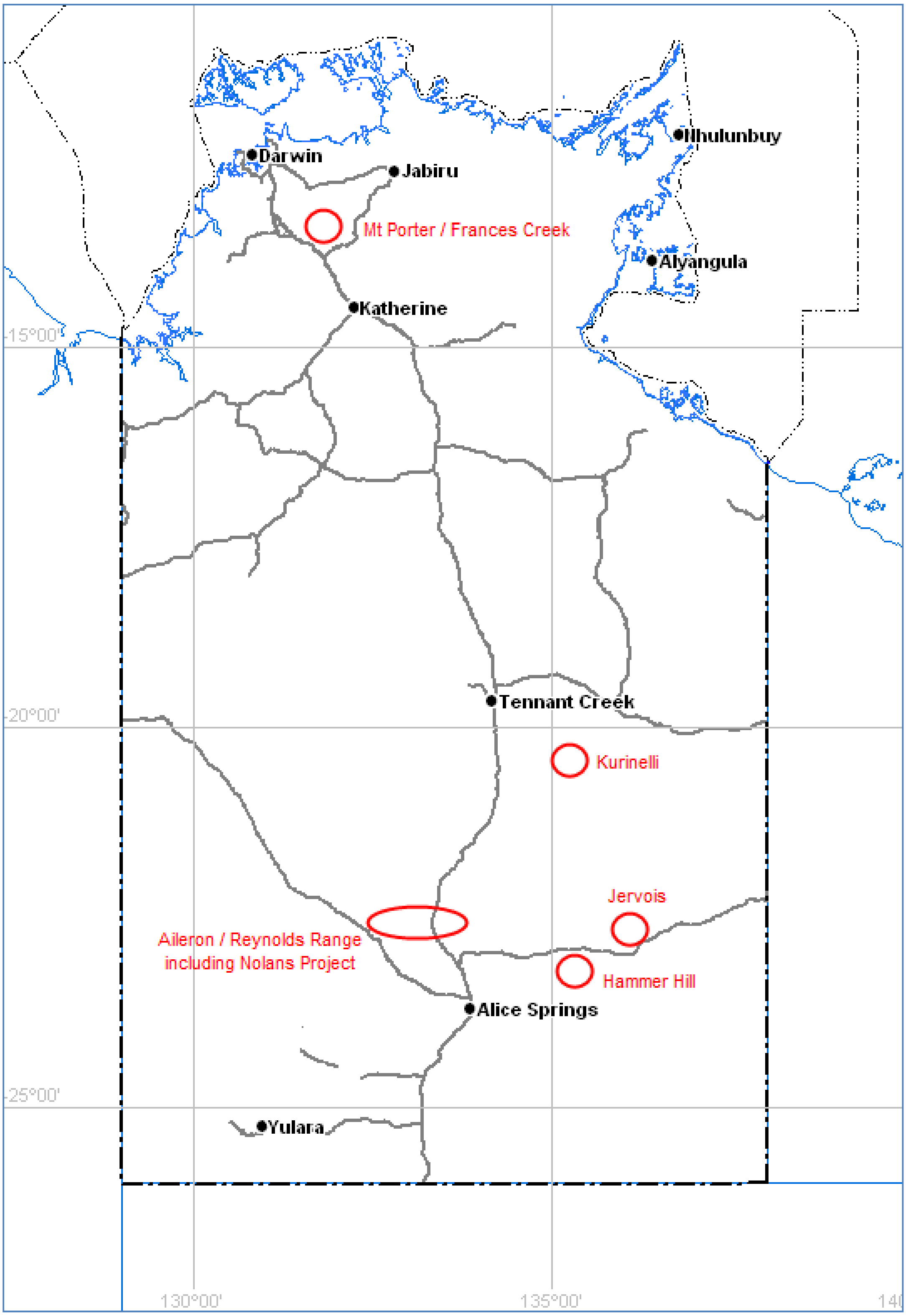
4 REVIEW AND VALUATION

AMC has been requested to review and value the current mineral assets of Arafura. The assets subject of this review and valuation are as follows:

- Aileron/Reynolds Range:
  - All rights on tenements held by Arafura (ELs 27335, 27336, 27337, 28473, 28498, and 28547, and ELAs 29227, 29503, and 29509), and MLA 26659 (held by Arafura Rare Earths Pty Ltd)
  - Non-uranium rights on ELs 24548 and 24741 (held by NuPower)
- Mt Porter (ELR 116 and ML 23839), for all minerals.
- Frances Creek, which includes:
  - All rights on EL 23237 (held by Arafura), plus
  - Gold rights on eight mineral leases (MLs 24727, 25087[4], 25088[4], 25529[4], 27225[4], 27227[5], 27228 and 27229[5]), two mineral lease applications (MLAs 27226[4] and 27230[4]), one exploration licence (EL 10137), and one mineral authority (MA 389), all held 100% by Territory and its subsidiary FCPL.
- Kurinelli, which includes MA 74 and MCCs 950 to 953 inclusive, for all minerals.
- Hammer Hill, over ELs 9725 and 10136 for all minerals excluding uranium.
- Jervois, over EL 10215 for all minerals excluding uranium, and EL 26812 for all minerals.
- Pamela, covering one exploration licence application (ELA 25754) for all minerals.

The locations of Arafura’s current project portfolio are shown in Figure 1.

Figure 1 Location Map (approximate) of Arafura's Northern Territory Project Portfolio



5 EXPLORATION PROJECTS REVIEW

5.1 Aileron/Reynolds Range

Arafura holds 100% rights to EL 27335, 27336, 27337, and 28547 (total 618.21 km^2) and has applications for three exploration licences (ELs 29227, 29503, & 29509) and one mineral lease application (ML 26659 – applied for by Arafura Rare Earths Pty Ltd).

Arafura is also the holder of EL 28473 & 28498 (total 814.18 km^2), on which NuPower has uranium rights (except within the exclusion zone around ML 26659 on EL 28473).

In addition, Arafura has non-uranium rights on ELs 24548 and 24741 (1 615.78 km^2), which are held by NuPower.

The complete package of tenements is shown in Figure 2.

Figure 2 Aileron/Reynolds Range – Tenements ELs 24548, 24741, 27335, 27336, 27337, 28473, 28498 and 28547, ELAs 29227, 29503 and 29509, and MLA 26659

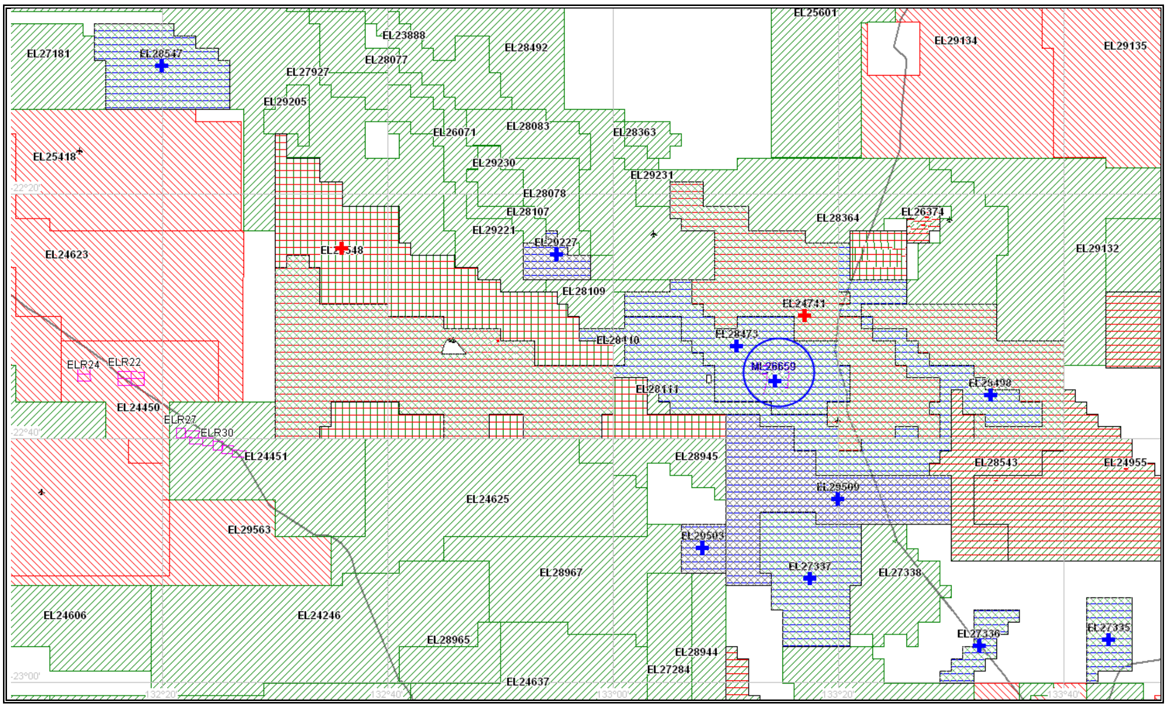


Image adapted from NT Gov. Titles Information System (TIS)
(blue circle = approximate Nolans Bore Exclusion Zone, blue cross = Arafura tenement, red cross = NuPower tenement)

ELs 24548 and 24741 were transferred to NuPower in the demerger of uranium assets from Arafura to NuPower in 2007, but Arafura retains rights to explore for and exploit non-uranium minerals on these two tenements.

Arafura has negotiated and executed an exploration agreement for ELs 28473 and 28498 with the Central Land Council (CLC) on behalf of the native title claimants.

The total Aileron/Reynolds Range tenement package is located over three pastoral leases.

Reynolds Range is part of the Aileron Province which forms part of the North Australian Craton, which itself is thought to be equivalent in age to the Tanami and Tennant Creek Palaeoproterozoic blocks. The metamorphic rocks in this province are intruded by Proterozoic granites and gneisses. The Reynolds Range trends north-west, with some 30 km of strike within Arafura's tenements.

Regionally, known mineralisation includes Nolans Bore, the Sabre gold prospect to the north-west of Arafura's areas and various occurrences of base metals, gold, tungsten, tin, tantalum, vanadium, and nickel.

Historically, Arafura's project area has been lightly explored for uranium, possible carbonatites, gold, and iron without great success except in relation to the discovery of Nolans Bore.

In 2005, Arafura carried out a geological reconnaissance and sampled ironstones for iron, base metals, rare earth elements (REE) and radiogenic minerals. This sampling produced limited encouragement although there were some elevated REE results. Earlier reports of iron deposits in haematitic sandstone of the Lander Rock Beds proved to be over optimistic but the presence of near surface pods of goethite, some manganiferous, was noted. This might suggest limited prospectivity for iron and manganese.

Work at Nolans Bore has suggested that the mineralisation may be responsive to aerial survey by hyperspectral methods and thus this could be appropriate for exploration for REE elsewhere in Reynolds Range.

Arafura was not able to complete on-ground reconnaissance in 2006-2007 due to a requirement to obtain extensive sacred site clearances as per its agreement with CLC. Instead Arafura planned an airborne magnetic and radiometric survey, an airborne hyperspectral survey, and two ground gravity surveys, which were completed in 2008 (Arafura Resources Ltd, February 2009).

Since the previous valuation undertaken by AMC in August 2009, Arafura reports the following changes and activities at Aileron/Reynolds Range:

- A major tenement consolidation effort, resulting in a number of replacement ELs (ELs 28473 and 28498) and cancellation of Substitute Exploration Licence (SEL) 23671, and ELs 23571, 27290, and 27291.
- Execution of an agreement with Ngalia Resources Pty Ltd (Ngalia) on 28 April 2010 over EL 24548 giving Ngalia the Fe rights.

  The transaction terms allow Ngalia to earn up to a 60% interest in Arafura Iron Pty Ltd, a wholly-owned subsidiary of Arafura into which Arafura's iron ore rights on EL 24548 have been assigned. In order to acquire this interest, it will be necessary for Ngalia to complete a bankable feasibility study on any iron ore resource it discovers on the tenement within 5 years.

  The agreement requires Ngalia to meet a minimum exploration commitment of $500,000 in the first year. Ngalia has completed ground geophysics and approximately 3,660 m of reverse circulation (RC) drilling since execution of the agreement (Arafura Quarterly Report, 30 June 2010).

Ngalia has now met the minimum required exploration commitment and has entered into a Joint Venture agreement that incorporates all the terms outlined in the letter agreement (e-mail P. Sherrington, 23 August 2012).

- An airborne geophysical survey was flown on EL 27337.
- Sampling of airborne hyperspectral and geophysical features on ELs 28473 and 28498.
- The lodging of three new EL applications (ELs 29227, 29503, and 29509).

There has been no work completed on ELs 28547, 27335, and 27336.

Expenditure on the currently held tenements (not including the Nolans Bore project) at the effective date is approximately $640,000. This includes Ngalia's expenditure of $500,000 on EL 24548.

Using a past expenditure approach and a PEM range of 0.8 to 1.0, the assessed value for Arafura's rights in Aileron/Reynolds Range would be $0.55M to $0.60M.

The total area currently held under licence by Arafura is 3 048.17 km^2 (applications not considered to be held until grant). Comparable transactions (Appendix A) indicate that a value for Arafura's rights in Aileron/Reynolds Range would be $8,300/km^2 to $11,800/km^2. Despite limited encouragement after several years' exploration, AMC has formed the view that the tenements have a strategic premium value given the proximity to Nolans Bore mineral resource; therefore, AMC arrives at a value by this approach of $10M to $14M.

AMC place the Technical Value of Arafura's interest in the Aileron/Reynolds Range project (excluding Nolans Bore, uranium rights on ELs 28473 (partial) and 28498, and iron rights on EL 24548) at $5.3M to $7.5M, with a preferred value $6.0M.

5.2 Mt Porter

The Mt Porter project is 100% owned by Arafura, having been acquired from Renison Goldfields Limited (Renison) in 2002.

The Mt Porter gold project is held under ML 23839 (364.7 ha) within ELR 116 (492 ha) (Figure 3 and Figure 6). These titles are located over a pastoral lease and Perpetual Crown Lease 884. The Mt Porter tenements abut the Frances Creek tenements reviewed in Section 5.3.

Figure 3 Mt Porter – Tenements ELR 116 and ML 23839

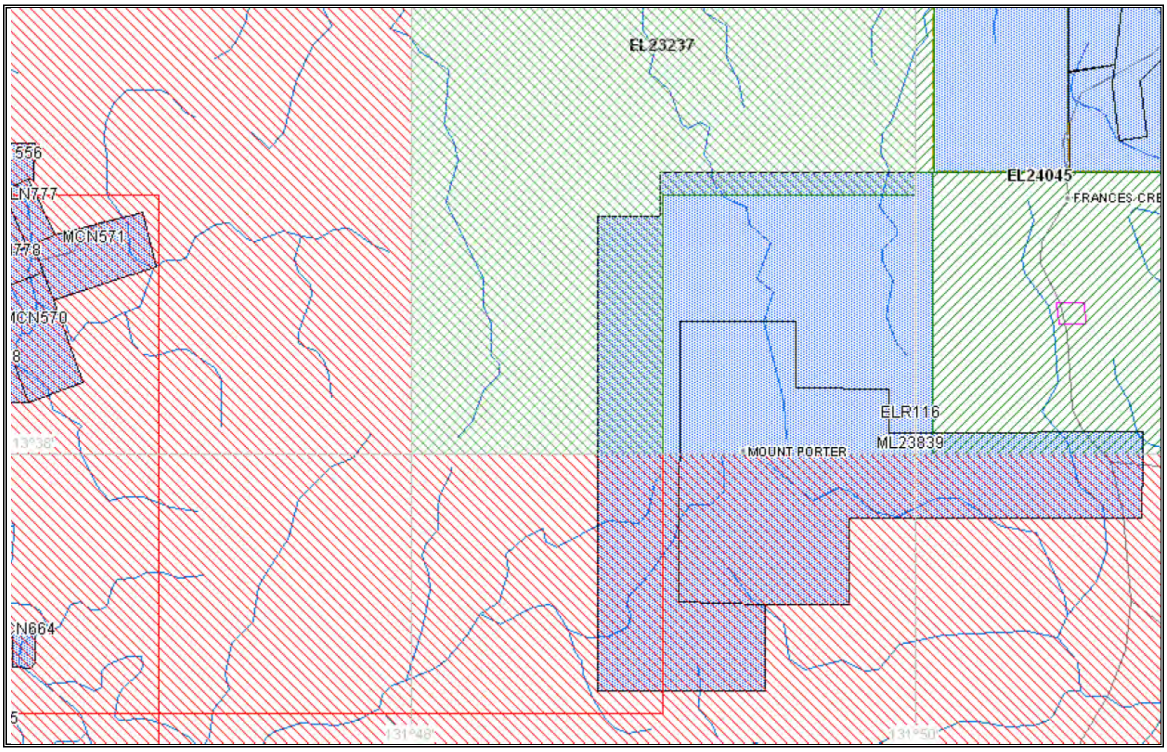


Image taken from NT Gov. Titles Information System (TIS)

Significant gold mineralisation at Mt Porter occurs in a unit of ferruginous nodular chert or ironstone in a folded sequence of Palaeoproterozoic Koolpin Formation sediments and conformable dolerites. The resource is within a north plunging, west dipping anticlinal structure and is bounded to the south by a north-east trending fault and to the north by an east trending fault. The best mineralisation occurs over a strike length of less than 100 m from near surface to a depth of 60 m to 70 m. The depth extent is controlled by the position of the favourable geological unit.

The area was originally explored by the Renison subsidiary, Pine Creek Goldfields Pty Ltd (PCG) as part of its Pine Creek gold project. PCG drilled the deposit in 1993, mainly with RC holes, and estimated a resource as shown in Table 1.

Table 1 PCG Mt Porter Resource Estimate at 1.7 g/t Cut-off – 1993

	Tonnes	Au (g/t)
Total Resource*	215 000	3.90

* not classified and reported in accordance with the JORC Code[6]

PCG carried out optimisation studies at a gold price in the range $525/oz to $595/oz. While those studies indicated a modest cash surplus, PCG decided against mining the deposit.

In 1995, PCG joint ventured the area with Homestake Gold of Australia Limited (Homestake) and the joint venture carried out additional drilling seeking extensions of the mineralisation down plunge and generally targeting potential for a larger deposit. Homestake withdrew from the joint venture in 1999.

In 2002, Renison sold the underlying title to Arafura (Blackton and Crabb Solictors, July 2002) with a 2.5% royalty payable to Renison for the gross value of all gold mined and recovered to a maximum of 12 000 oz. Arafura's interest is also subject to government royalty, and to a compensation payment to native title claimants, which is confidential and related largely to pre-tax profits from any operation.

In 2003, Arafura drilled seven diamond drillholes in the known resource and employed a consultant to estimate the resource. The 2003 resource estimate is shown in Table 2.

Table 2 Arafura Mt Porter Mineral Resource Estimate at 1 g/t Cut-off – March 2003

Resource Classification	Tonnes	Au (g/t)
Indicated	547 900	2.28
Inferred	132 700	1.86
Total Resource	**680 600**	**2.20**

At a 0.5 g/t Au cut-off grade the total resource estimate is estimated to be 878 000 t at 1.9 g/t Au; and at a 1.7 g/t Au cut-off grade the total resource is estimated to be 355 000 t at 3.0 g/t Au (34 200 oz Au).

Of the resource tabulated in Table 2, approximately 77 200 t at 2.0 g/t Au is oxide; the remainder being transitional and fresh (primary) mineralisation.

There is modest potential for addition to the resource within the presently known limits, particularly in the north-west on the western limb of the anticline. Beyond the resource limits there are other gold occurrences both to the south and to the north, including good

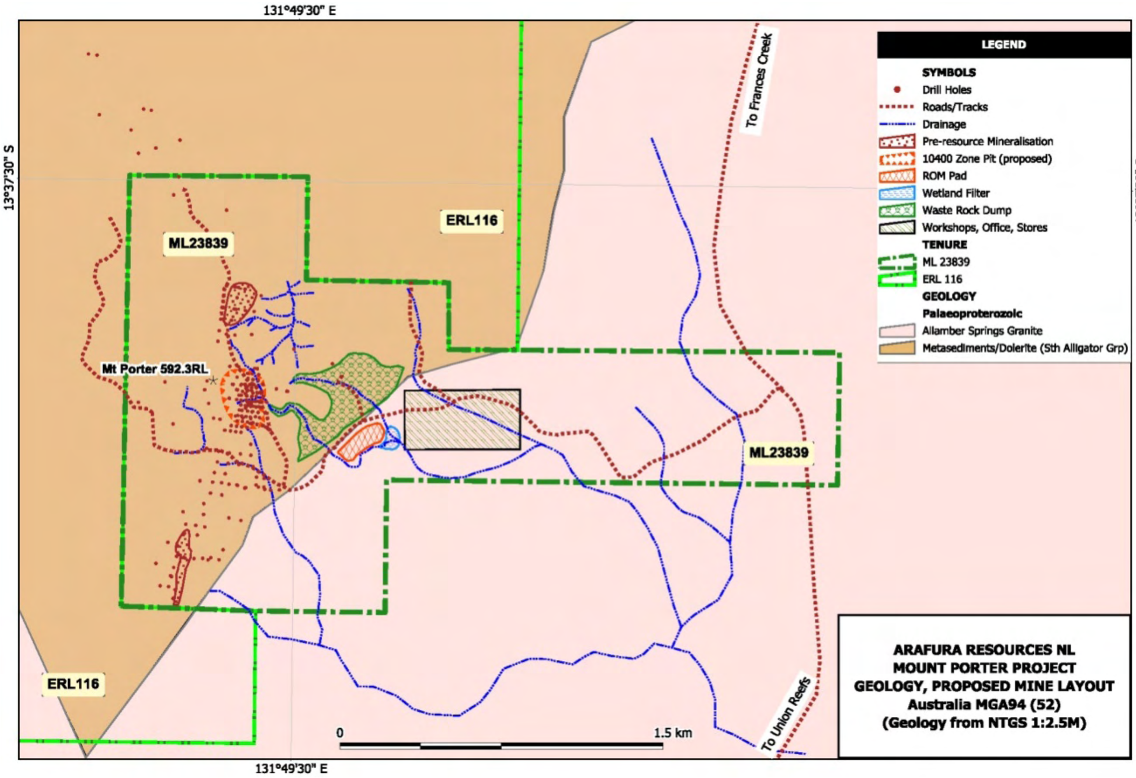
[6] Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code 2004 Edition, Effective December 2004, Prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists, and Minerals Council of Australia (JORC).

gold intersections in drilling, but to date it has not been possible to demonstrate sufficient continuity for economic potential.

The favourable geological unit is overlain by a sulphide-rich unit of carbonaceous shale, and the primary mineralisation is arsenic rich. PCG carried out some preliminary metallurgical testing, the results of which indicated a variable recovery for the primary mineralisation with some tests recovering less than 70%. It is understood that there has been no subsequent metallurgical testing.

Arafura has commissioned archaeological and environmental surveys and developed a mine plan (Figure 4). A Notice of Intent has been lodged but final mining approval is yet to be sought. In AMC's opinion, there are no issues arising from that work which are likely to inhibit mining approval in this area of historically active gold mining.

Figure 4 Mt Porter – Proposed Mine Layout



(Exploremin Pty Ltd, November 2007)

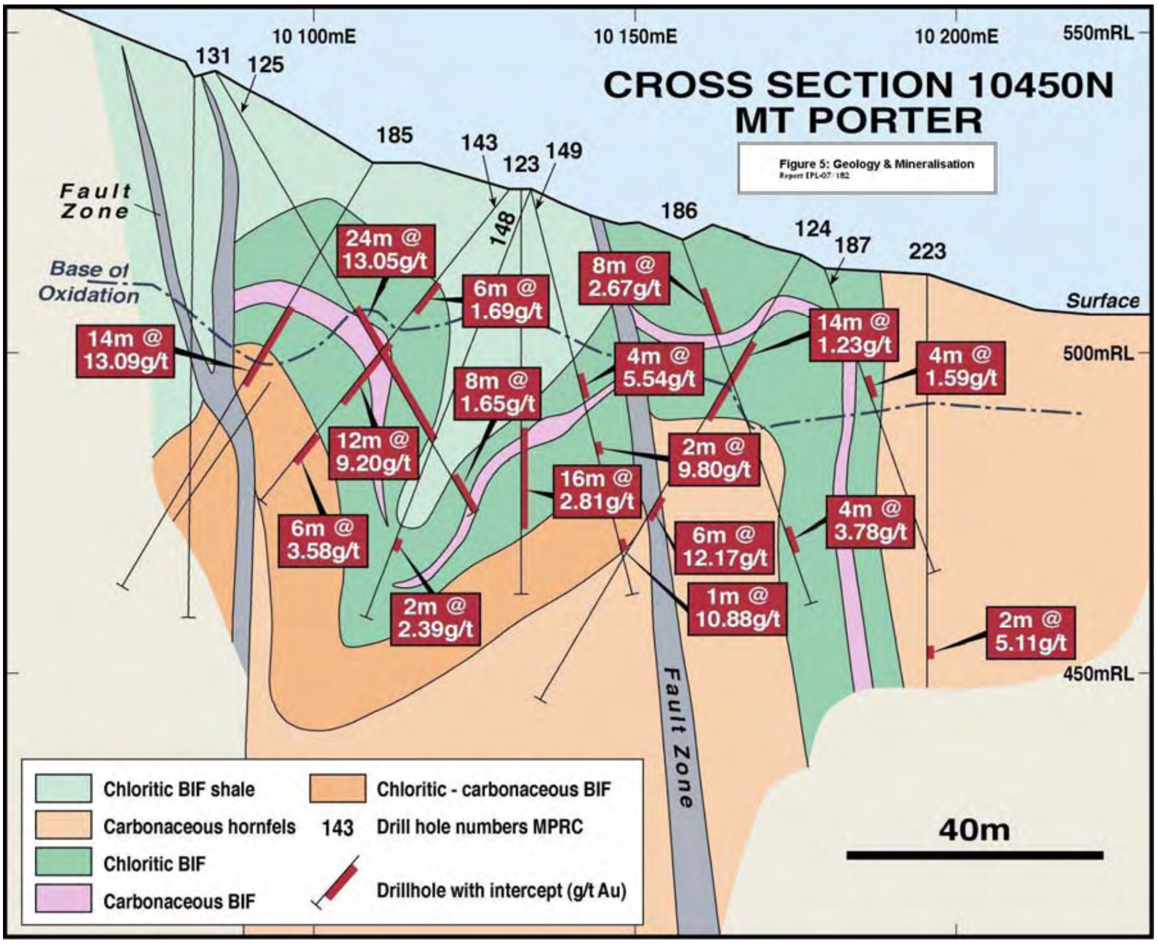
The database for the resource estimate is largely from the older RC drilling in which assays were carried out mainly for 2 m samples. The deposit has been closely drilled on 12.5 m spaced lines, but on every second line the drilling is limited to two or three holes. While largely confined to the favourable unit, the distribution of mineralisation is erratic and it is thought that the better grades are related to the presence of cross structures that are probably steeply dipping.

An RC drilling programme was commenced in late 2006 to test targets to the north-west and south-east of the main mineralise zone, however the programme was not completed as the drill string became jammed at 78 m down the fourth hole drilled. Arafura carried out a review of the old and more recent data and quality control checks indicated satisfactory reliability. AMC accepts that assessment.

AMC reviewed the resource report (Resource Evaluations Pty Ltd, March 2004), the associated due diligence report (Exploremin Pty Ltd, May 2004), and the 2006 annual tenement report (Exploremin Pty Ltd, November 2007). The resource is estimated into a cell model with a parent cell size of 5 m x 10 m x 5 m (X x Y x Z). The model was constrained by the limits of the favourable geological unit. Grade was interpolated into the model cells by the inverse distance squared (ID^2) method, with the directions of interpolation based on the understanding of the geometry of the folded host unit. Most of the resource is classified as Indicated Mineral Resource based on the density of the drilling.

A cross section of the geological interpretation and mineralised drillhole intercepts is shown in Figure 5.

Figure 5 Mt Porter – Cross Section 10 450 mN



(Exploremin Pty Ltd, November 2007)

From AMC's assessment, the geological interpretation seems moderately reliable; however, the sample interval is relatively broad for a complex, structurally-controlled mineralisation, and the interpolation of grades along stratigraphic directions rather than structural directions reduces confidence in the overall model. AMC is of the view that there is a risk that the 2004 model could have overestimated tonnes and underestimated grade.

On 24 January 2011, Arafura announced that it had negotiated a sale of its Mt Porter and some Frances Creek assets to Global Mineral Resources (GMR). The sale was to be completed on several conditions, including the successful listing of GMR on the ASX. However, on 18 November 2011, GMR announced that it had withdrawn its IPO document from the ASX due to the volatility in global equity markets at that time, and in doing so, the conditions of sale of the Mt Porter project would not be met and the sale agreement lapsed.

In the period between AMC's 2009 valuation and the present, Arafura has advised that it has completed airborne hyperspectral survey over all tenements, but no on-ground exploration activities.

Previous AMC valuations of the Mt Porter assets have been completed using DCF methods. However, BDO has requested (e-mail dated 1 August 2012) that the current valuation be undertaken using methods suitable for projects that have declared mineral resources (i.e. a yardstick approach), rather than on an economic basis. BDO cites the lack of an ore reserve at the project and the low likelihood that the project will progress to mining in the near future as the reasons for this decision.

Using a yardstick approach, and based on a resource of 34,200 oz Au, the assessed value for the Mt Porter project would be $0.5M to $1.0M, with a preferred value $0.8M (yardstick of $23/oz).

5.3 Frances Creek

Arafura's interest in the Frances Creek project consists of ten granted tenements (ELs 10137 and 23237, MLs 24727, 25087, 25088, 25529, 27225, 27227, 27228 and 27229, and MA 389) and two tenement applications (MLAs 27226 and 27230), which collectively cover an area of 69.11 km^2 (Figure 6).

Full rights to EL 23237 have been transferred to Arafura since AMC's previous valuation in 2009.

Territory holds 100% rights over EL 10137, MLs 24727, 25087, 25088, 25529, 27225 and 27228, MLAs 27226 and 27230. FCPL, a subsidiary of Territory, holds 100% rights over MA 389 and MLs 27227 and 27229.

Arafura retains gold rights on the following tenements as part of the sale agreement executed on 18 January 2008 (Arafura-Territory, January 2008):

- The whole of EL 10137, MA 389, and successor tenements MLs 25087, 25529, 27227 and 27229; and
- Those parts of successor tenements MLs 24727, 25088, 27225 and 27228, and MLAs 27226 and 27230, where these successor tenements coincide with EL 10137, MA 389 and (the now cancelled) EL 22270;

Arafura's gold rights on these tenements are transferrable and may be sold.

Figure 6 **Frances Creek – Tenements ELs 10137 and 23237; MLs 24727, 25087, 25088, 25529, 27225, 27227, 27228, and 27229, MLs 27226 and 27230 (applications); and MA 389 (figure also shows Mt Porter Tenements ELR 116 and ML 23839)**

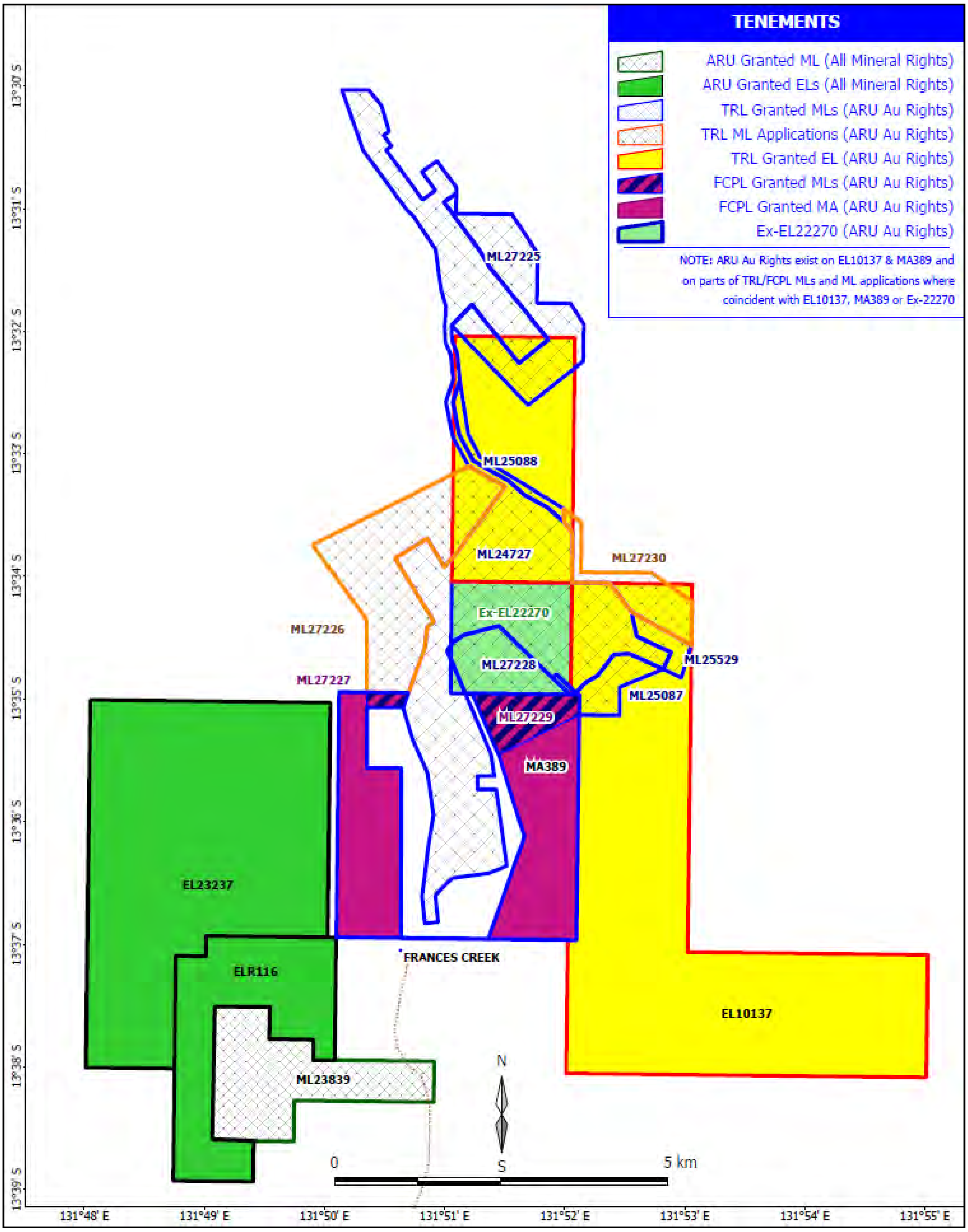


Image provided by Arafura

The Frances Creek tenements cover a sequence of Palaeoproterozoic, mainly Mount Partridge Group sediments including the Wildman Siltstone in the west and the Mundogie Sandstone in the east. The metasediments are intruded by the Allamber Springs Granite and by Zamu Dolerite dykes and sills and folded about generally northerly trending axes. Shearing and faulting, both sub-parallel to the fold axes and across strike, are common.

The Frances Creek area is accessible from Pine Creek, and the Alice Springs to Darwin railway line is some 10 km west of the iron ore deposits. There is a long history of mining in the area, the commodities of significance including gold, iron ore, manganese, and tin. There has been mining of other commodities but generally in less significant amounts.

In 2004, following on from work by Homestake in 1996 to 1998 which had identified seven gold anomalies within MA 389, Arafura carried out a stream sediment sampling programme on the tenements. Arafura's past geochemical sampling over 27 km^2 led to the discovery of a series of narrow quartz reefs with discontinuous but high grade gold along a north to south trend in Mundogie Sandstones over a total distance of 4 km. The best of these is the Golden Honcho vein which has been rock-chip sampled on the surface over a strike length of 400 m with grades averaging 17.6 g/t Au. Along strike to the north is the Golden Slips occurrence which is narrower and less well mineralised and there are other lesser occurrences of gold in narrow shears and breccias in the same trend.

RC drilling to date has tested Golden Honcho and Golden Slips to a depth of 50 m and intersected narrow, steeply dipping zones containing gold from a few grams per tonnes to 20 g/t Au. Golden Honcho has been drilled over some 120 m of strike on 15 m sections. Narrow (usually 2 m or less in true width) veins carry average values of 10 g/t Au to 15 g/t Au discontinuously along 100 m of strike open to the north. Golden Slips has been drilled over some 200 m of strike with less encouraging grades and continuity.

Some low-order gold anomalies resulting from the geochemical sampling are yet to be followed up. Elevated lead and zinc values were recorded in Masson Formation rocks below the Mount Partridge Group and within the Wildman Siltstone some gold, silver, copper, and zinc values were weakly anomalous.

The potential at Golden Honcho and the other occurrences is considered low and would probably require underground mining for the main part. Given the potential for high grades, AMC believes that a small operation at Golden Honcho may be economic, but at this stage no gold mineral resource has been defined and Arafura is not actively pursuing this target. Golden Honcho is not of a sufficient size to support a standalone treatment plant.

In the period between AMC's 2009 valuation and the present, Arafura has advised that it has completed an airborne hyperspectral survey over all tenements, but no on-ground exploration activities.

AMC's valuation of the Frances Creek mineral assets applies a discounting factor to take into account the fact that Arafura only holds one of the 13 titles, has gold-rights-only on 12 of the 13 of the titles, is not currently actively exploring any of the tenements, and is only obliged to do so on EL 23237.

Arafura's exploration work to the effective date has had a total cost of approximately $160,000. Using a past expenditure approach and a PEM range of 0.8 to 1.0, the assessed value for Arafura's gold rights in Frances Creek would be $0.16M to $0.20M.

The total area currently held under licence by Arafura is 69.107 km^2. Comparable transactions (Appendix A) indicate that a value for Arafura's rights in Frances Creek would be $5,571/km^2 to $8,300/km^2. AMC arrives at a value by this approach of $0.29M to $0.43M (after discount discussed above).

AMC place the Technical Value of Arafura's interest in the Frances Creek mineral assets (excluding Mt Porter assets, described in Section 5.2) at $0.20M to $0.32M, with a preferred value $0.28M.

5.4 Kurinelli

The Kurinelli project comprises one tenement (MA 74), which is 181.58 km^2 in area (Figure 7). The title is located on a pastoral lease and on Northern Territory Land Corporation Crown Lease 117. Within the boundary of MA 74, Arafura has four granted mineral claims (MCC 950 to MCC 953 inclusive).

Figure 7 Kurinelli – Tenement MA 74

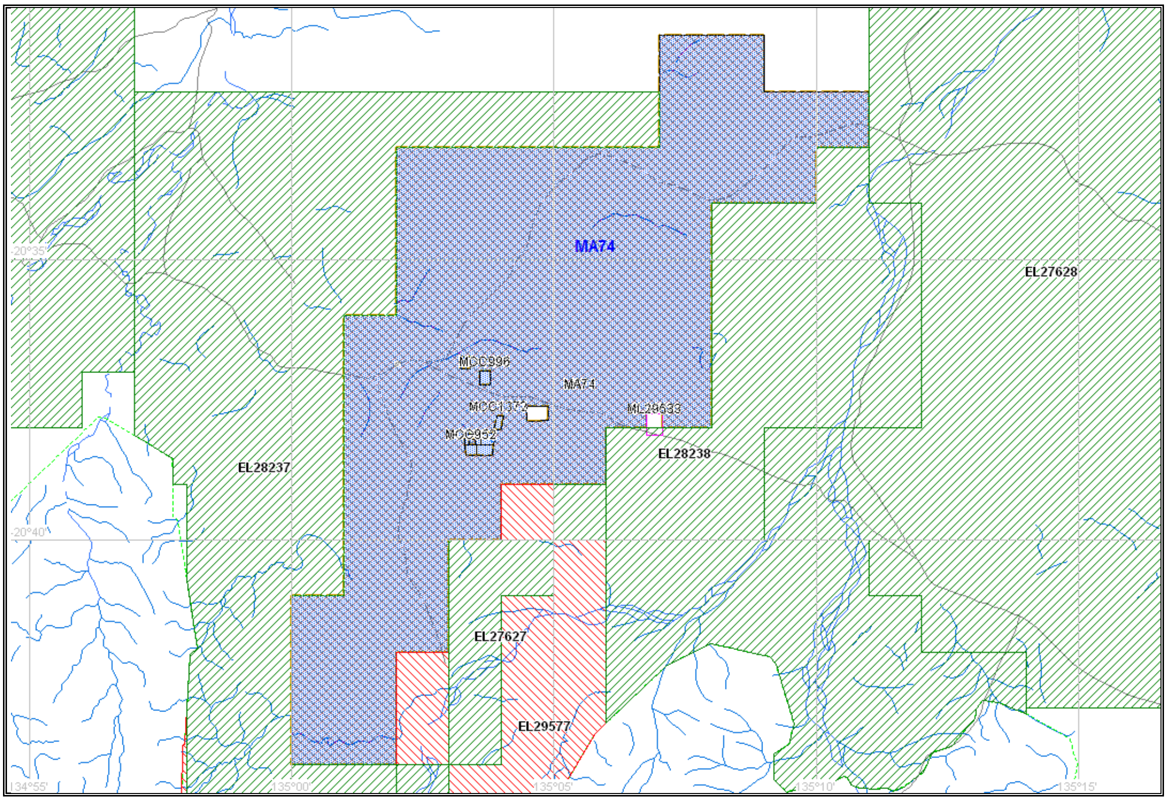


Image taken from NT Gov. Titles Information System (TIS)

Arafura has negotiated and executed an exploration agreement for MA 74 and MCCs 950 to 953 with the CLC on behalf of the native title claimants.

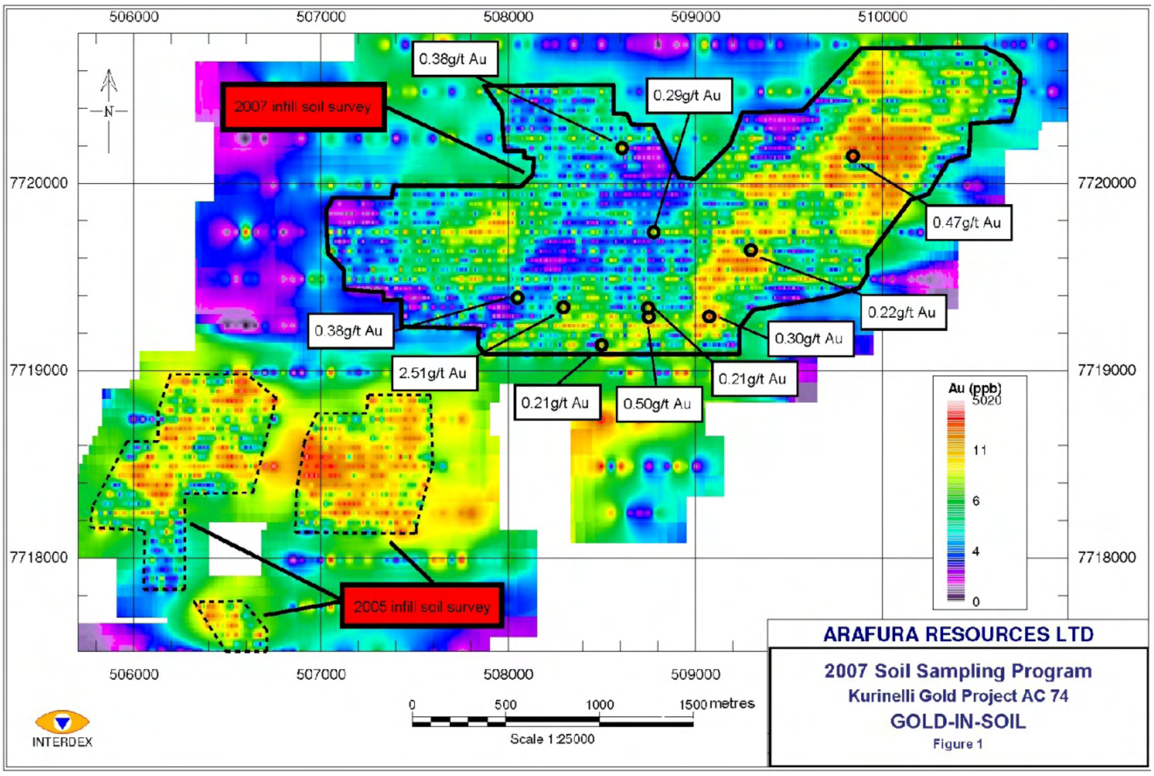
The titles are located over the old Kurinelli goldfield, about 140 km south-east of Tennant Creek and 20 km to 30 km north of Hatches Creek in which there has been limited prospecting activity since around 1900.

Historical production from the area is about 400 oz of gold from quartz veins in sandstone and siltstone of the Palaeoproterozoic Rooneys Formation. The sediments are interlayered with sills of dolerite and gabbro and bordered in part by the Kurinelli Sandstone, a younger unit of the Ooradidgee Group.

In 2004, Arafura carried out a geochemical survey over some 200 km^2 collecting samples on a 500 m grid. The samples were analysed for gold and platinoids as well as for base metals and nickel. Analyses demonstrated a coherent gold in soil anomaly over some 25 km^2 to 35 km^2. Geological reconnaissance of the area returned low gold assays from ferruginous quartz veins. The soil samples were not anomalous for platinoids and base metal values were thought probably to represent the underlying stratigraphy. Arafura also commissioned an airborne geophysical survey on 200 m spaced lines over the Kurinelli zone in 2004.

In 2005 Arafura carried out a programme of closer-spaced sampling on part of that anomaly and then further in-filled the better areas with 2 592 samples taken on a 50 m x 25 m grid. The coverage included the mineral claims under option. This sampling programme further focussed the main prospective zone to an area 2.5 km x 6 km (Figure 8).

Figure 8 Kurinelli – 2005 to 2007 Exploration Soil Sampling

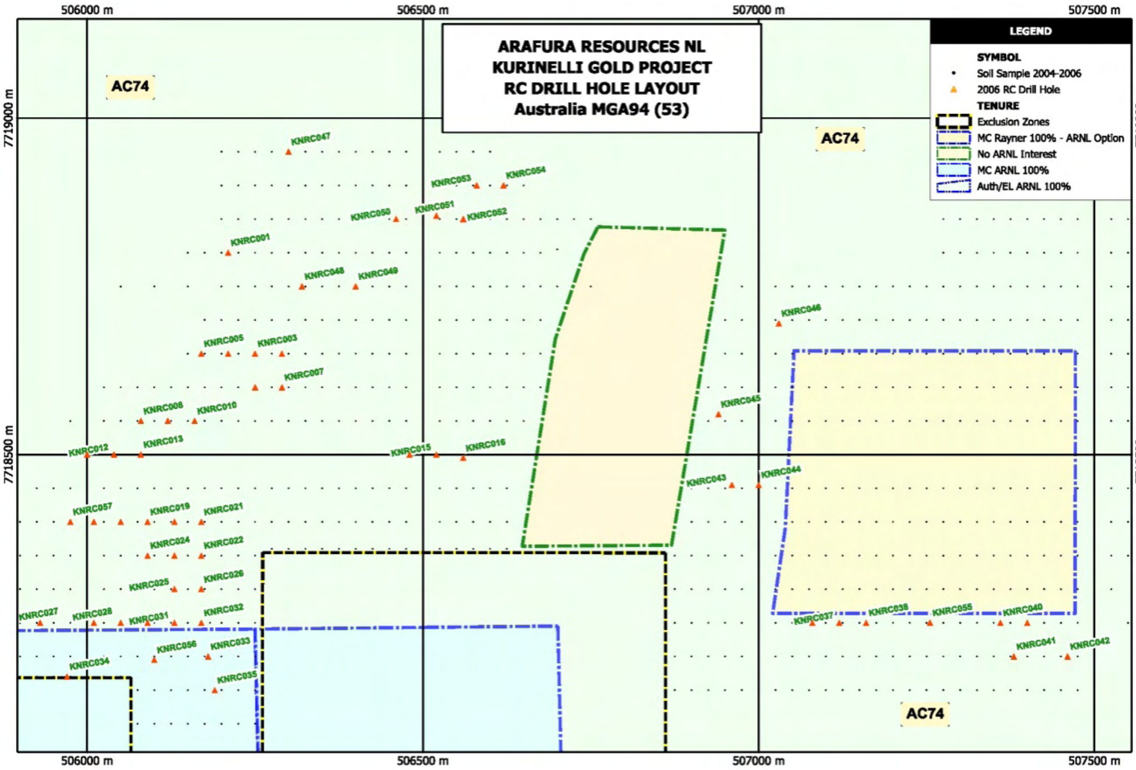


(Arafura Resources Ltd, November 2007)

Fifty-seven RC holes were drilled from May to July 2006 (Figure 9). The best results were narrow intercepts of 1 g/t Au to 7 g/t Au. Results were consistent with the impression of nuggety gold in narrow veins reported by historical prospecting. The drilling programme did not identify any zones of coherent economic gold mineralisation, (Arafura Resources Ltd, August 2006).

In 2007 Arafura carried out a programme of closer spaced sampling on part of that anomaly and then further in-filled the better areas with 2 635 samples taken on a 50 m x 25 m grid over a north-east trending gold-in-soil geochemical anomaly (Figure 8). The coverage included the mineral claims under option. This sampling programme was not considered encouraging as the results were lower than the previous drilling suggested (Arafura Resources Ltd, July 2008).

Figure 9 Kurinelli – 2006 Exploration RC Drilling



(Arafura Resources Ltd, August 2006)

No work has been undertaken since AMC's valuation in 2009. Arafura has spent some $930,000 since it initiated exploration in 1996.

Given the relatively limited encouragement from the exploration undertaken to date, AMC would apply a PEM of 0.7 to 1.1 to past expenditure indicating a value of $0.6M to $0.95M by this approach.

The total area currently held under licence 181.58 km^2 (including four MCCs). Comparable transactions (Appendix A) indicate that a value of $5,571/km^2 to $8,300/km^2 is appropriate given limited encouragement after several years of exploration, indicating a value by this approach of $1.0M to $1.5M.

AMC place the Technical Value of Arafura's interest in Kurinelli at $0.8M to $1.25M, with a preferred value $1.0M.

5.5 Hammer Hill

Arafura holds two tenements (ELs 9725 and 10136) currently covering an area of 290.77 km^2 in the eastern part of the Arunta Block about 200 km east-north-east of Alice Springs (Figure 10). The titles are located over seven pastoral leases.

EL 26520 has been relinquished since AMC's valuation in 2009.

Figure 10 Hammer Hill – Tenements EL 9725 and EL 10136

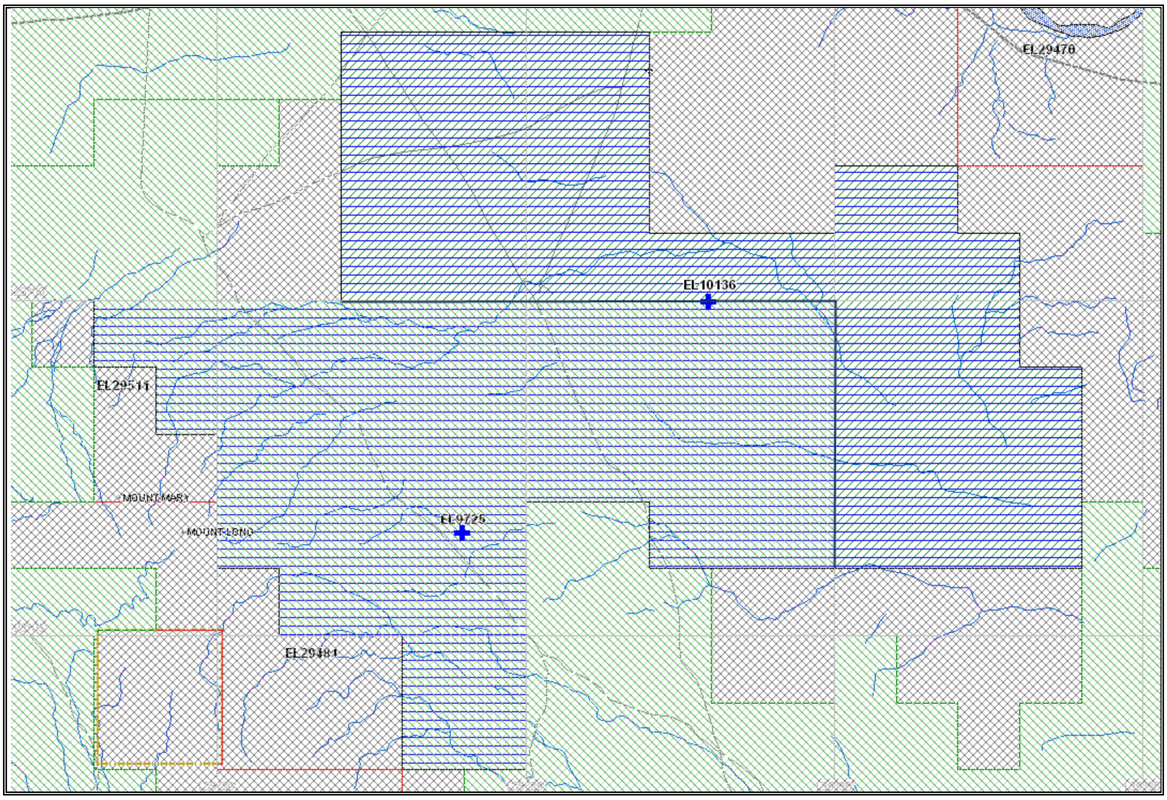


Image taken from NT Gov. Titles Information System (TIS)

Arafura has negotiated and executed an exploration agreement for EL 9725 and EL 10136 with the CLC on behalf of the native title claimants.

The areas cover mainly Neoproterozoic and early Palaeozoic aged rocks of the Harts Range Metamorphic Complex which comprise mostly metasediments and lesser ultramafic rocks.

ELs 9725 and 10136 were part of the tenement package included in the 2007 demerger of assets from Arafura to the newly formed NuPower. Under the asset sale and subscription agreement (Arafura-NuPower, January 2007) Arafura retained 100% holder rights to these two tenements, with NuPower gaining rights to explore for and exploit uranium on the tenements. Rights to all other minerals are retained by Arafura.

Past exploration at the Hammer Hill prospect has demonstrated the existence of nickel and chromium mineralisation in the weathered ultramafic and also the existence of REE in association with barite in pegmatites in the Holstein area.

Western Mining Corporation Limited explored the general area for diamonds and recorded some positive results by way of samples containing microdiamonds and kimberlitic pyrope. Older reports indicate that rock chip sampling at Hammer Hill achieved values of up to 0.9% Ni. The discovery of gold in vein quartz some 10 km north-east of EL 10136 suggests some further work targeting gold is appropriate. There is little outcrop in the area.

In 2006, Mithril Resources Limited (Mithril) undertook magnetic lag sampling and a small soil sampling programme which identified a number of areas with elevated nickel and copper grades. Mithril's initial work focused on a 25 km x 25 km area including Hammer Hill, and it carried out a programme in which it sampled magnetic pisolite from the surface over seven separate targets. That work demonstrated a coherent chromium and nickel anomaly over an area of 6 km x 2 km around Hammer Hill and anomalous values were detected at several other targets (Mithril Resources Ltd, March 2007).

Mithril subsequently undertook several ground electro-magnetic (EM) surveys, which identified a number of drill targets (Mithril Resources Ltd, February 2008).

In 2008 Mithril undertook a diamond drilling programme, further ground and down hole EM surveys, and surface geological mapping and rock chip sampling (Mithril Resources Ltd, March 2009). Three diamond drillholes (819.3 m) were located to test EM conductors identified in previous EM work. Two of the three holes intersected pyrrhotite-pyrite-chalcopyrite mineralisation accounting for the EM conductors.

A 52 hole aircore drilling programme was completed in 2009 (Mithril Resources Ltd, June 2009). This programme was designed to test magnetic targets.

Since the previous valuation undertaken by AMC in August 2009, Arafura reports the following changes and activities at Hammer Hill:

- Mithril and BHP Billiton withdrew from the Hammer Hill Joint Venture in June 2010.
- EL 26520 was surrendered.
- Partial relinquishments of ELs 9725 and 10136.
- An airborne geophysical survey was flown over EL 9725.

The total exploration expenditure to date is approximately $1.25M.

Given the reasonably limited encouragement from the exploration undertaken to date, AMC would apply a PEM of 0.9 to 1.1 to past expenditure; indicating a value of the past exploration of $0.66M to $0.80M.

The total area currently held under licence by Arafura is 290.77 km^2. Comparable transactions (Appendix A) indicate that a value for Arafura's rights in Hammer Hill would be $5,571/km^2 to $8,306/km^2. AMC arrive at a value by this approach of $1.05M to $1.55M for Arafura's beneficial interest.

The values from the comparable transactions and past expenditure methods indicate an overall value of $0.87M to $1.21M for Arafura's beneficial interest. To this AMC adds $200/km^2 for the value of the potential for REE, phosphates, and diamonds.

AMC place the Technical Value for Arafura's beneficial interest in the Hammer Hill project at $0.93M to $1.27M, with a preferred value of $1.1M.

5.6 Jervois

Arafura holds title over ELs 10215 and 26812 currently covering 279.03 km^2 in the Jervois area some 260 km east of Alice Springs (Figure 11). The titles are located on three pastoral leases and Department of Planning and Infrastructure land.

Figure 11 Jervois – Tenements ELs 10125 and 26812

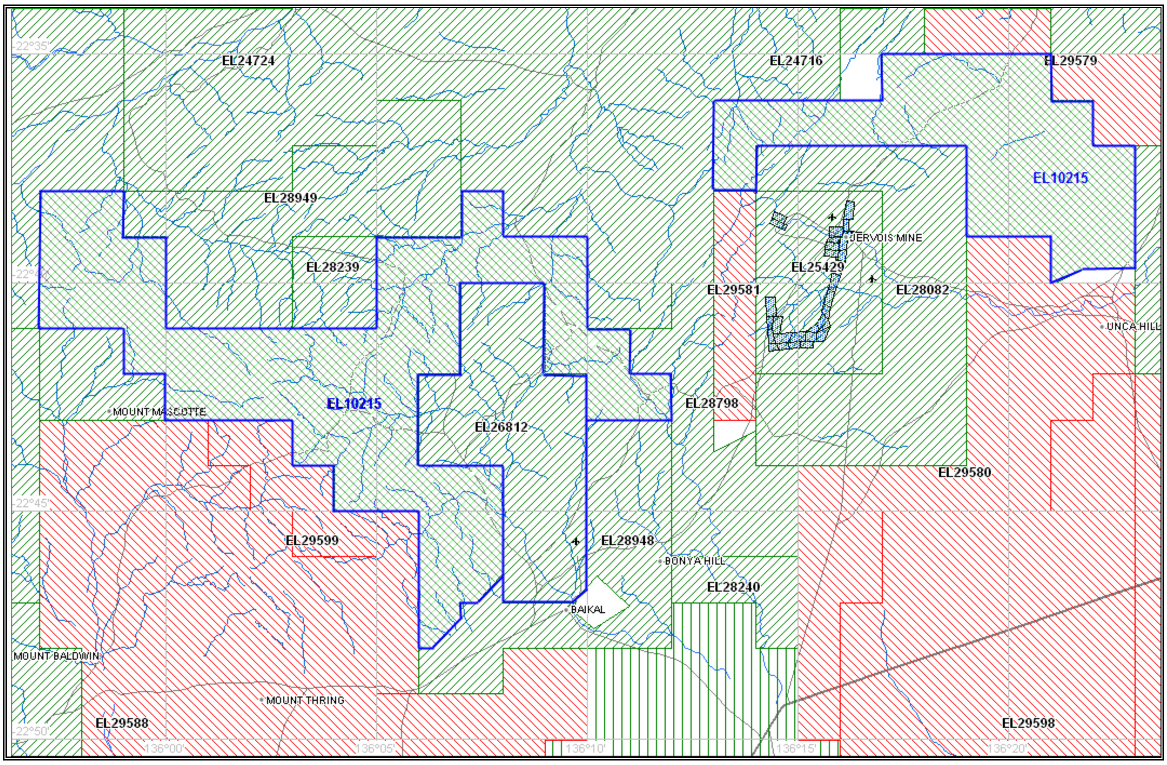


Image taken from NT Gov. Titles Information System (TIS)

Basement rocks in the area include the Palaeoproterozoic Bonya Schist unit, which hosts the Jervois base metal deposits, and the Attutra Metagabbro which contains high values of iron, titanium, and vanadium together with some anomalous copper, platinoids and gold. Much of the area is covered by sand but aeromagnetic signatures in the basement rocks are similar to those containing the Jervois base metals project about three kilometres from the boundary of EL 10215.

Other targets within the area include sediment hosted base metals, REE in pegmatites and possible carbonatites, and diamonds in possible kimberlite.

EL 10215 was part of the tenement package included in the 2007 demerger of assets from Arafura to NuPower. Under the asset sale and subscription agreement (Arafura-NuPower, January 2007) Arafura retained 100% holder rights to this tenement, with NuPower gaining rights to explore for and exploit uranium on the tenement.

Following a brief reconnaissance in 2004 guided by interpretation of existing aerial geophysical survey data, Arafura flew closer-spaced and lower-level magnetic and radiometric survey in 2005 and its ground follow-up identified the probability of six to eight pods of massive magnetite within the Attutra Metagabbro which is possibly a layered complex.

Rock-chip sampling over two outcrops of the magnetite at the Unca prospect on EL 10215, which returned assays of 50% to 55% Fe, 1.0% to 1.5% V_2O_5 and 14% to 15% TiO_2.

In 2006 Arafura undertook two drilling programmes: one comprising 60 RC holes (1 713 m) on the Lucy Creek uranium prospect, and the other comprising 15 RC holes (934 m) on the Unca prospects (Arafura Resources Ltd, April 2007). Because Jervois uranium rights were assigned to NuPower in 2007, the Lucy Creek exploration will not form a part of this review and valuation.

Of the 15 holes drilled in the Unca prospect, 14 intersected magnetite-rich intervals. The sample assay results were favourable and comparable to known magnetite-hosted vanadium resources.

ProMet Engineers Pty Ltd (ProMet) was commissioned to provide a review of the Unca Davis Tube recovery (DTR) and assay results, and optimal grinding strategies. ProMet prepared 63 composites from 285 samples. From these composites ProMet determined that a magnetite concentrate can be produced containing up to 1.8% V_2O_5 at a yield of >70% vanadium to concentrate. The TiO_2 is considered too low to lead to viable TiO_2 products, and too high for a viable Fe product. ProMet likened the Jervois vanadium to the Windimurra deposit, and concluded that the project looks prospective with good vanadium yields and that there would be a reasonable expectation that a vanadium pentoxide operation would be successful (ProMet Engineers, August 2007).

In 2008, a further 45 RC holes were drilled (4 840 m) targeting magnetic anomalies at Unca (Arafura Resources Ltd, January 2008). All Unca drilling is shown in Figure 12. Based on the number of drillholes and samples reported in the annual reports, it is estimated at $1.1M has been expended to date on non-uranium exploration.

In April 2009, Arafura signed a letter of intent (LOI) with Jiangsu Eastern China Non-Ferrous Metals Investment Holding Co. Ltd (ECE) to enter into a joint venture agreement in the first stage of which ECE sole funds $3.0M of exploration to earn a 51% interest in the Jervois tenements (Arafura-ECE, April 2009). Arafura advise that the LOI for funding of exploration work by ECE has since lapsed (February 2010).

Since the previous valuation undertaken by AMC in August 2009, Arafura reports the following changes and activities at Jervois:

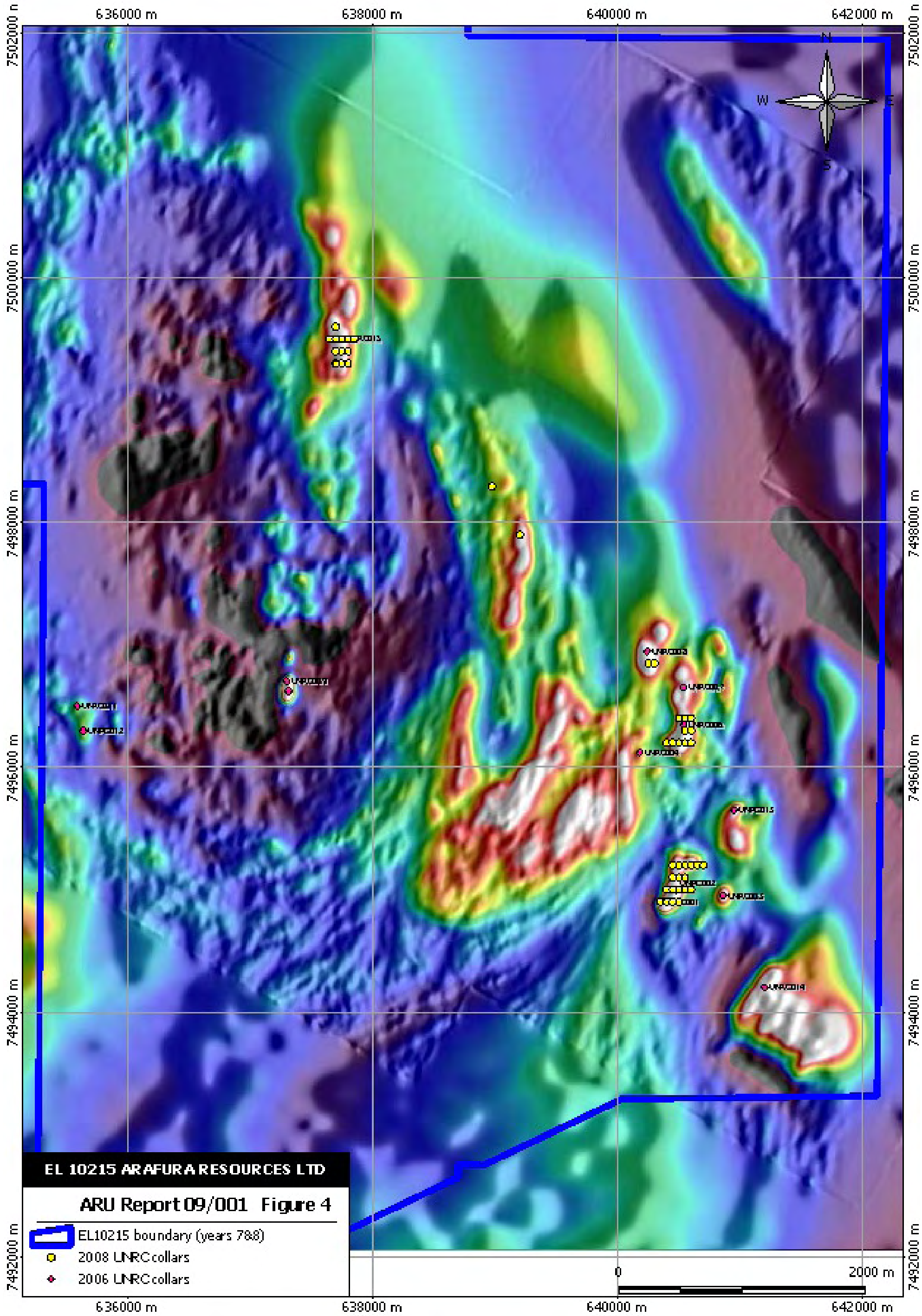
- The LOI for funding of exploration work with ECE lapsed.
- Re-sampling of drill spoils for Au-PGE analysis.
- Surrender of ELs 26231 and 26318.
- Partial relinquishments on ELs 10215 and 26812.

Given the favourable results at the Unca prospect, AMC apply a PEM of 1.2 to 1.5 to past expenditure; indicating a value by this approach of $1.3M to $1.7M for Arafura's interest.

The total area currently held under licence by Arafura is 279.03 km^2. Comparable transactions indicate that a value for Arafura's rights in Jervois would be $1,671/km^2 to $5,776/km^2. AMC arrives at a value by this approach of $1.2M to $1.52M for Arafura's interest.

AMC place the Technical Value of Arafura's interest in the Jervois project at $1.3M to $1.6M, with a preferred value of $1.4M.

Figure 12 Jervois – Drilling at Unca Prospect (Eastern block)



(Arafura Resources Ltd, January 2008)

5.7 Pamela

Arafura has applied for an exploration licence at the Pamela project (EL 25754). The tenement covers an area of approximately 2.8 km^2 and is located approximately 18 km south of Alice Springs (Figure 13).

Figure 13 Pamela – EL 25754

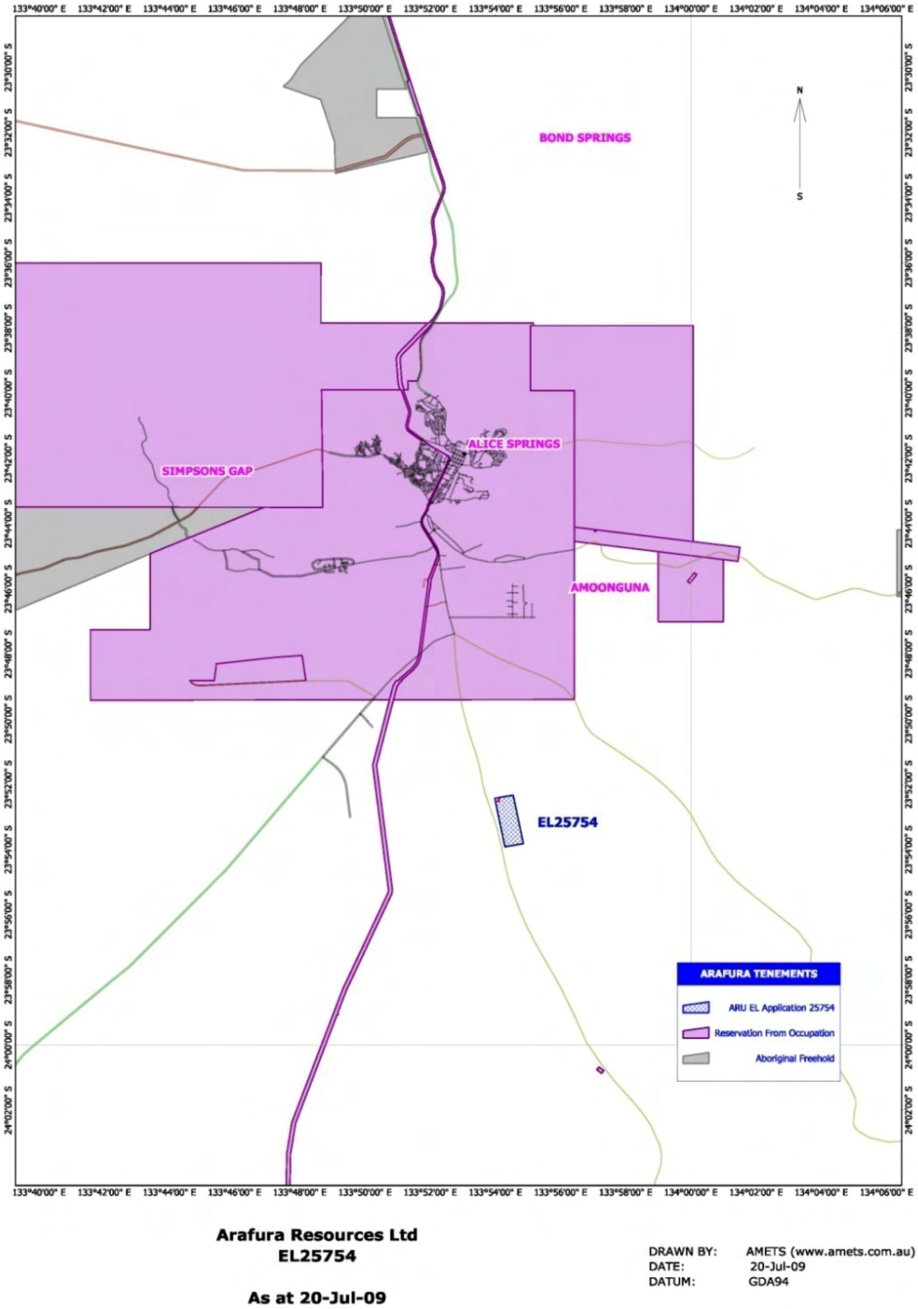


Image supplied by AMETS

Tenement applications hold no inherent value until grant.

6 NOLANS BORE FINANCIAL MODEL REVIEW

BDO has completed a DCF valuation of Nolans Bore separate to AMC's assessment.

AMC's supports use of the DCF method for the purposes of valuing of the Nolans Bore project because:

1. Technical and economic assessment undertaken as part of a completed pre-feasibility study (PFS), and progression to a feasibility study (FS) indicates that the Nolans Bore project has reached a stage where DCF evaluation is appropriate.
2. As per the VALMIN Code[3], assessment of value must consider information materiality. The completion of a PFS and near completion of a FS is considered by AMC to be material. If this information was not used, the VALMIN Code (Clause 17) requires a rationale to be provided. After careful and lengthy consideration, AMC is unable to determine the basis of such rationale.
3. Economic viability of the Nolans Bore project has been assessed across a range of technical disciplines, not only an exploration or geological assessment.
4. Consideration given in the JORC Code[6] to the term Economically Viable (Clause 28) is consistent with AMC's view of the current and previous work undertaken by Arafura across the Nolans Bore project.
5. In consideration of the "Checklist of Assessment and Reporting Criteria" and specifically the section titled "Estimation and Reporting of Ore Reserves" provided in the JORC Code, evaluation of the Nolans Bore project has now met many (if not all) of the criteria for Ore Reserve estimation.

AMC acknowledges Clause 27 of the JORC Code effectively advises that the terms "ore" and "reserves" should not be used to describe Mineral Resource estimates unless technical feasibility and economic viability have been established. However, AMC believes that "Modifying Factors" consistent with the establishment of technical feasibility and economic viability have been considered and it is now a matter of timing rather than significant further technical assessment for an Ore Reserve to be estimated as deemed appropriate.

AMC's scope of work in regard to Nolans Bore comprised a technical assessment of certain key assumptions underlying the Nolans Bore cash flow model (the Nolans Model), which was developed by Arafura. This technical assessment involved the review of, and providing comments on the reasonableness of the following assumptions adopted in the Nolans Model:

- "Production inputs (including tonnes, REO grade, average REO composition and recovery rates),
- Mining operating costs (including direct operating expenditure, beneficiation costs and fixed costs),
- Capital expenditure (including construction costs of both the Minesite and the Rare Earths Complex as well as the construction schedule,
- Transports costs, and
- Royalties."

AMC makes the following observations in relation to the Nolans Model:

1. AMC observed that the Nolans Model uses the same average mining and processing rates, grades and costs each year. AMC's Interim Mining Study notes that mining grades are higher in the earlier years and lower in the later years, (Nolans Project Feasibility Study Mine Planning (Interim Study), July 2012). The use of the averages over the life of the mine in the Nolans Model may result in the cash flows being lower at the start of the project and higher at the end, potentially resulting in a lower, hence conservative NPV.

   Arafura responded to this query confirming a conservative approach.

   AMC concludes that no modifications to the Nolans Model are required at this interim stage of the modelling as a result of this observation.

2. The output from the chemical plant is fixed at 20 ktpa. Because the grades mined are higher in the early years, less material needs to be treated to produce 20 ktpa from the chemical plant; therefore, costs are lower in the early years. The Nolans Model does not match the operating costs shown in Table A-3 of the Interim Study. There appears to be some difference in definition of mining and processing costs between Table A-3 and the Nolans Model.

   Arafura has responded to this query that the Interim Study was produced using operating expenditures that have since been updated.

   AMC concludes that the Nolans Model is based on information that is different to that provided for AMC's Interim Study.

3. It appears that the operating cost totals are lower in the Nolans Model than in the Interim Study. Also, it appears that unit operating cost inputs are lower (albeit not materially lower) in the Nolans Model than the Interim Study.

   Arafura has responded to this query by referring to its response for observation 2 (above).

   AMC concludes that the Nolans Model is based on information that is different to that provided for AMC's Interim Study.

AMC concludes that the Nolans Model is suitable at this interim stage of the feasibility assessment, albeit providing a somewhat conservative view.

7 SOURCES OF INFORMATION

Arafura provided AMC with a number of reports and related information in digital format. AMC's report is based on a review of that information, together with information obtained from direct communications with Arafura personnel.

In addition, AMC has sourced information from internet searches of public reports released by Arafura, as well as other public domain information, and data and images from the Northern Territory Government Titles Information System (TIS). Information on tenement areas from the Western Australian Department of Mines and Petroleum Mineral Titles On-Line system was used to inform comparable transactions calculations.

Diagrams in this report have been predominantly sourced from Arafura and TIS.

Information listed in relation to comparable transactions has been derived from public documents, particularly MiningNews Newsletter and the Register of Australian Mining.

AMC does not warrant the accuracy of the information that has been used from public domain sources.

Appendix B lists the bibliographical references that have been utilised by AMC for this report.

An independent tenement register and report was compiled and supplied by AMETS.

8 QUALIFICATIONS

AMC is a firm of mineral industry consultants whose activities include the preparation of due diligence reports and reviews on mining and exploration projects for equity and debt funding and for public reports.

The contributors to this report are:

- Sharron Sylvester BSc, Grad Cert (Geostats), MAIG, RPGeo. AMC Principal Geologist with more than 22 years experience in the mining industry, who coordinated and managed the assessment, reviewed the assets and carried out the valuations.
- Bernie Peters BEng, Grad Dip App Inv Fin, FAusIMM. AMC Principal Mining Engineer with more than 28 years experience in the mining industry, who reviewed the Nolans financial model.
- Dean Carville BSc (Hons), MAusIMM. AMC Principal Geologist with more than 30 years experience in the mining industry, who peer reviewed the valuations and report.

Independence

AMC undertook a valuation of Arafura's complete portfolio of mineral assets in 2006 at the time of Arafura's demerger of uranium assets to NuPower, and again in 2009 in relation to a proposed placement of shares to Jiangsu Eastern China Non-Ferrous Metals Investment Holding Company Limited. AMC also undertook valuations of smaller components of Arafura's mineral asset portfolio in 2010.

In 2012, AMC was commissioned to complete a mineral resource estimate for the Nolans Bore rare earth project, as well as an interim mine planning study and a geotechnical analysis.

In all of its assignments, AMC and its sub-consultants have acted as independent parties. Neither AMC nor the contributors to this report have any interests in Arafura or in the proposed transaction subject of this report that could be reasonably construed to affect their independence. AMC has no pecuniary interest, association or employment relationship with Arafura.

AMC is satisfied that Holly Sutcliffe of AMETS, who prepared an independent report on the standing of the tenements, is an independent and qualified party.

Neither AMC nor the contributors to this report or members of their immediate families hold shares in Arafura. AMC is being paid a fee according to its normal per diem rates and out of pocket expenses in the preparation of this report. Its fee is not contingent on the outcome of the transaction subject to this report.

Reliance on Information

In AMC's letter of engagement, Arafura agreed to comply with the obligations of the commissioning entity under the Valmin Code[3], including that to the best of its knowledge and understanding, complete, accurate and true disclosure of all relevant material information has been made.

Arafura has advised AMC in writing that to the best of its knowledge and understanding complete, accurate and true disclosure has been made to AMC of all material information relevant to the projects described in AMC's report, and that there have been no material changes in the status of mineral assets between the completion of AMC's work and the sign off date.

In preparing this document, to the extent that it is based on information and reports provided by Arafura and AMETS, AMC has relied on information and reports provided to it by these companies. AMC accepts no liability in respect of such data or information, save that it has exercised reasonable care as set out below, in the use of such data and information. AMC makes no representation and gives no warranty as to the accuracy or completeness of the data or information contained in any information or reports that it has relied on.

Arafura has been provided with drafts of our report to enable correction of any factual errors and notation of any material omissions. The views, statements, opinions and conclusions expressed by AMC are based on the assumption that all data provided to it by Arafura are complete, factual and correct to the best of Arafura's knowledge.

AMC's bid does not require it to assess the non-mineral assets and liabilities of Arafura, nor to determine its position in regard to deductions available against future liabilities for income taxes.

Effective Date

The conclusions in this report are effective as at the date of the report, but those conclusions could change in the future depending on changes in metal prices and/or results and technical changes at the proposed operations and/or results of exploration and/or status of tenements. AMC disclaims responsibility for any changes that may have occurred after the date of this report.

Standard of Work

AMC warrants that in the preparation of this report it has taken reasonable care in accordance with standards ordinarily exercised by members of the profession generally who practice in the same locality and under similar conditions. AMC accepts no liability whatsoever in respect of any failure to exercise a degree or level of care beyond such reasonable care. No other warranty, express or implied, is given, save where necessarily incorporated by statute. The report has been prepared in accordance with the scope of work and for the purpose outlined in the engagement letter dated 8 August 2012 and should be read in full. No responsibility is accepted for the use of any part of this report in any other context or for any other purpose or by third parties. This report does not purport to give to legal advice.

Consent

AMC consents to the confidential use of this report by Arafura for its use as required under company law and/or Australian Stock Exchange Listing Rules specific to this report. Neither AMC's report nor any part of it, nor any reference to it, may be used for any other purpose without AMC's prior written consent.

Reliance on Report

To the extent permitted by law, AMC accepts no liability whatsoever, whether in contract, in tort or negligence or otherwise, for any loss or damage (including consequential or economic loss or damage) arising as a result of any person other than the named addressees acting or refraining from acting in reliance on any information, opinion or advice contained in this document.

No person (including the clients) is entitled to use or rely on this document and its contents at any time at which any fees (or reimbursement of expenses) due to AMC are outstanding and, in those circumstances, AMC may require the return to it by any person of all copies of this document and any part of it in their possession.

Indemnity

Arafura has indemnified AMC against any and all losses, claims, costs, expenses, actions, demands, liabilities or any other proceedings, whatsoever incurred by AMC in respect of any claim by Arafura or by a third party arising from or connected to any breach by Arafura of its obligations under AMC's engagement, including AMC's reliance on information provided to it by Arafura.

Signatories

The signatories of this report are members of appropriate relevant recognised Professional Associations and are bound by their codes of ethics.

…………………………

Sharron Sylvester

BSc, Post Grad Cert (Geostats)

MAIG, RPGeo

Principal Geologist

…………………………

Dean Carville

BSc (Hons)

MAusIMM

Principal Geologist

APPENDIX A

COMPARABLE TRANSACTIONS

Selected Comparable Transactions

Commodity	State	Geological Province/Area	Resource	Project Name	Project Description	Year of Transaction	Month of Transaction	Project Area km^2	Buyer	Seller	Transaction Details	Value of Transaction	AMC Valuation	Unit of Measure
REE	WA	Gascoyne Region	No resource. Rock Chip samples have returned high grades of up to 19.44% TREO	Yangibana Rare Earth Project	Exploration	2011	June	203	Hastings Rare Metals Limited	Artemis Resources Limited	Artemis Resources 60% stake in the Yangibana rare earths project in Western Australia went to Hastings Rare Metals for up to $A4 million.	$4 000 000	$11 823	per km^2
REE/Au	WA/QLD		-	Killi Killi, Fulford & Bonnor Creek, Top Camp, Broughton	Exploration	2012	May	1 316	Australia Conglin International Investment Group Pty Limited	Orion Metals Limited	A$13.9 million off-market takeover bid from Orion's largest shareholder.	$13 900 000	$10 562	per oz
Au	WA		JORC-compliant resource of 1.2moz (@2.2g/t) plus more than 100 walk-up drilling targets.	Fortnum	Exploration	2012	January	1 791	Resource and Investment NL	Grosvenor Gold Pty Ltd (BlueCrest)	R&I to acquire the Fortnum project from Grosvenor Gold for cash and shares	$35 000 000	$29	per oz
Au	WA	Goldfields	No resource. 21 prospecting licences and 4 exploration licences	West Kalgoorlie Gold Project Tenement	Exploration	2012	March	85	Phoenix Gold	Carrick Gold	Carrick's West Kalgoorlie tenements sold to Phoenix Gold for cash and shares.	$706 000	$8 306	per km^2
Au	VIC		JORC Inferred Resource 160,000t at 9.0g/t Au for 46 000 oz Au	Ballarat Gold Project	Resource	2012	April		LionGold Corp	Castlemaine Goldfields Limited	LionGold offering two shares for every nine Castlemaine shares held.	$55 310 000	$1 202	per oz
Au	VIC	Victoria	NI 43-101 Measured and Indicated resources 3.732 moz and 622,000 ounces of Inferred resources	Fosterville and Stawell Gold Mines	Resource	2012	May		Crocodile Gold	AuRico Gold	Crocodile paid C$55 million cash and C$10 million in shares for the Fosterville and Stawell gold mines.	$65 000 000	$15	per oz
Au	WA/NT	Murchison	3.92 moz Au-equiv and significant potential for additional growth.	Central Murchison Gold Project, Rover	Resource	2012	May	1 502	Metals X	Westgold Resources	Westgold Resources and its largest shareholder Metals X have agreed to a friendly, all-scrip merger.	$91 500 000	$23	per oz
Au/Cu	WA	West Pilbara and Yandal Greenstone Belts	Carlow Castle - 91,000t Inferred Mineral Resource at 10g/t Au and 1.4% Cu	Mt Sholl, Nickol River, Carlow Castle, Twin Table Hills and Radio Hill Exploration projects.	Resource	2012	May	700	Artemis Resources	Karratha Metals	Artemis has acquired 100% of Karratha Metals Limited. Primarily an all share deal on the basis of 6 Artemis shares for each Karratha share, with $250,000 payable on completion of acquisition.	$3 900 000	$133	per oz
													$5 571	per km^2
Au	WA	Gum Creek Greenstone Belt	Wilsons project 325,000 oz resources	Wilsons Gold Project	Resource	2012	May		Panoramic Resources	Apex	Panoramic has executed a Tenement Sale Agreement with Apex to purchase the Wilsons Gold Project.	$8 000 000	$25	per oz
Au	WA	Southern Cross Province	No resource. Previous drilling at the project has returned results including 7 m at 10.34g/t from 10 m, 10 m at 5.1g/t from 10 m, 2 m at 6.53g/t from 14 m, and 2 m at 7.18g/t from 24 m.	Holleton Gold Project	Exploration	2012	June	650	Evolution Mining	Independence Group	Consideration for the purchase is 500,000 Evolution shares.	$760 000	$1 169	per km^2
Ni	WA		The Lounge Lizard deposit contains a high grade indicated mineral resource of 743,000 tonnes at a grade of 5.8% nickel for a total of 43,000t contained nickel.	Lounge Lizard	Exploration	2012	March	300	Western Areas	Kagara	Western Areas has purchased the Lounge Lizard nickel deposit for $A68 million in cash from Kagara. The assets being acquired include the Lounge Lizard nickel mine as well as the surrounding package of 300sq km of exploration tenements.	$2 500 000	$5 776	per km^2
Iron ore	WA	Archaean Hamersley Province	-	7 exploration tenements and 2 prospecting licences	Exploration	2012	January	1 445	Coziron Resources Limited	Zanthus Resources Pty Ltd	Coziron has entered into 3 seperate agreements with Zanthus, Buddadoo and KingX for a total consideration of 500million shares at a deemed value of A$15M	$5 000 000	$3 461	per km^2
Manganese/Iron Ore	WA	Yilgarn	-	Kingston Project	Exploration	2012	January	2 992		KingX Pty Ltd		$5 000 000	$1 671	per km^2
Iron Ore	WA	Archaean Gullewa Greenstone Belt	-	Exploration licence E59/1350	Exploration	2012	January	217		Buddadoo Metals Pty Limited		$5 000 000	$23 041	per km^2

APPENDIX B

REFERENCES

ANNUAL EXPLORATION REPORTS (in project alphabetical order, then in date order)

Aileron / Reynolds Range

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APPENDIX C

TECHNICAL GLOSSARY & ABBREVIATIONS

TECHNICAL GLOSSARY

Aeromagnetic	Refers to measurement of magnetic qualities of rocks using an aeroplane-mounted instrument.
Anomaly	Zone or point in the soil or underlying rock determined by exploration methods to be different from its general surroundings.
Anticline, antiformal	A part of a fold system forming an arch i.e. convex upwards.
Apatite	A calcium phosphate mineral which can contain fluorine (Fluorapatite).
Barite	A barium sulphate mineral – $(BaSO)_4$
Base Metal	Non precious metal, usually refers to copper, lead, zinc.
Basement	Generally refers to the older cratonic rocks below the sedimentary basins.
Bastnaesite	A fluocarbonate of the cerium metals - $CeCO_3(OH,F)$, found in contact metamorphic zones and pegmatites.
Breccia	A rock composed of angular fragments of rock embedded in a matrix.
Carbonaceous	Term given to a rock containing carbon.
Carbonate	Minerals containing calcium and/or magnesium carbonate.
Carbonatite	Intrusive or extrusive igneous rocks defined by mineralogical composition consisting of greater than 50 percent carbonate minerals.
Cheralite	A rare earth mineral of the monazite group - $CaTh(PO_4)_2$.
Chert	A cryptocrystalline siliceous rock usually of sedimentary origin.
Core	Cylinder of rock recovered from diamond drilling.
Costeaning	Exploration technique involving digging of trenches to expose rock.
Cut-off Grade	The grade at or above which material is treated as ore, and below which it is treated as waste.
Diamond Drilling	Method of obtaining a cylindrical core of rock by drilling with a diamond impregnated bit.
Dip	The angle at which layered rocks, foliation, a fault, or other planar structures, are inclined from the horizontal.
Dolerite	A medium grained basic igneous rock.
Dyke	A discordant tabular body of igneous rock that was injected into a fissure when molten.
Fault	A fracture in rocks along which rocks on one side have been moved relative to the rocks on the other.
Feasibility Study (bankable)	A comprehensive technical and economic study of a project of sufficient accuracy to provide the basis for a decision concerning financing.

Flotation	A wet mineral extraction process by which articles containing certain minerals are induced to become attached to bubbles and float, whilst others sink.
Fluorapatite	A mineral with the formula $Ca_5(PO_4)_3F$ (calcium fluorophosphate). The most common phosphate mineral, it occurs widely as an accessory mineral in igneous rocks and in calcium rich metamorphic rocks.
Footwall	The underlying side of a geological feature or mine opening.
Gabbro	A coarse-grained igneous rock, low in silica and high in magnesium and calcium.
Gangue	Waste mineral.
Geochemical	Prospecting techniques which measure the content of certain metals in soils and rocks and define anomalies for further testing.
Geotechnical	Referring to the physical behaviour of rock under stress.
Gneiss	Banded rocks formed during high-grade metamorphism.
Goethite	A hydrated iron oxide mineral – (FeO(OH)).
Grade control	A general term which describes the many measures required to maximise mining recovery of the valuable mineral whilst minimising dilution.
Granite	A coarse grained igneous rock consisting largely of quartz and feldspar.
Haematite (hematite)	An iron oxide mineral – Fe_2O_3.
Hydrothermal	A process related to the introduction of heated or superheated waters associated with igneous activity.
Hyperspectral	The use of many narrow sections of the electromagnetic spectrum in remote sensing.
Indicated Mineral Resource	Defined in the JORC Code[6] as that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.
Inferred Mineral Resource	Defined in the JORC Code[6] as that part of Mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.
Intrusion	A body of igneous rock that invades older rocks.

Inverse distance squared - ID^2 (cubed - ID^3)	A method of projecting grades into a cell model in which the weighting of any nearby sample is inversely proportional to the square (cube) of its distance from the cell being estimated.
Ironstone	A broad term for a rock consisting mainly of iron oxides.
Kaolin	Clay mineral derived from alteration of aluminium silicate minerals - $Al_2Si_2O_5(OH)_4$.
Kimberlite	A hybrite volatile-rich potassic ultrabasic igneous rock intruded from the mantle and occurring at or near the surface as a cone-shaped volcanic pipe or as sheet-like dykes or sills. Known to contain diamonds.
Lanthanides	Rare earth elements (REEs) – the group of fifteen elements with atomic numbers 57 through 71.
Magnetite	An iron oxide mineral – Fe_3O_4.
Metamorphism, Metamorphic	Term applied to pre-existing sedimentary and igneous rocks which have been altered in composition, texture or internal structure by processes involving pressure, heat and/or the introduction of new chemical substances.
Metasedimentary	General term used to describe sedimentary rocks which have been metamorphosed.
Microdiamond	A diamond that passes through a sieve with an mesh opening of 0.4 mm diameter.
Mineral Resource	Defined in the JORC Code[6] as a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories.
Monazite	A reddish-brown phosphate mineral containing rare earth metals, an important source of thorium, lanthanum, and cerium.
Mylonite	A laminated milled rock formed by movement on fault surfaces.
Nugget	Refers to a particle of gold or other precious metal, usually a few millimetres in size or larger.
Open Pit	Mine excavation produced by removing all material overlying and including the extracted ore. No underground caverns are created.
Ore	Mineral bearing rock which can be mined and treated profitably under current or immediately foreseeable economic conditions.

Ore Reserve	Defined in the JORC Code[6] as the economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Ore Reserves are sub-divided in order of increasing confidence into Probable Ore Reserves and Proved Ore Reserves.
Orebody	A physically discrete body of rock comprising ore.
Ounce (oz)	Troy ounce of 31.10348 grams.
Oxide Mineralisation	Derived from alteration of primary sulphide minerals by oxidation in the weathered zone.
Pegmatite	A very coarse grained igneous rock.
Platinoids	The platinum group metals.
Plunge	The angle from the horizontal of a geological feature viewed in a vertical plane parallel to its strike.
Primary	In this context the original mineralisation before it has been subject to secondary processes.
Probable Ore Reserve	Defined in the JORC Code[6] as the economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.
Proterozoic	A geological era from 2 400 million years to 570 million years. Now subdivided into Palaeo-, Meso- and Neo-.
Pyrope	A form of garnet
Quartz	Mineral species composed of crystalline silica (SiO_2).
Radiogenic	Relating to or caused by radioactivity.
Radiometric	Measurement of radioactivity useful in mapping rock formation.
Reef	A lode or vein.
Refractory	Ore from which it is difficult or expensive to recover the valuable constituent related minerals in quantities ranging from anomalous to economically recoverable.
Regolith	The altered, unconsolidated or re-cemented cover that overlies coherent bed rock.

Reverse Circulation (RC) drilling	Variant of percussion drilling in which cuttings are raised to surface by a stream of compressed air inside a metal tube.
Rock Chip Sampling	Refers to collecting a representative sample comprising numerous small chips of rock.
Sandstone	A medium grained sedimentary rock with a high content of quartz
Shale	Mudstone or claystone with very thin fissile bedding.
Shearing	Deformation by lateral movement along parallel planes.
Sill	An intrusion which is parallel to (conformable with) the stratigraphy of the enclosing rocks.
Siltstone	A fine-grained sedimentary rock.
Smectite	A clay mineral-hydrous aluminium silicate.
Soil Anomaly	A zone or point determined by geochemical sampling and assaying of the soil to be different from the general surrounds.
Solvent Extraction	A means of selectively separating a metal in a solution from other elements by its affinity for a particular solvent.
Stockwork	A set of veins in a number of different orientations.
Stratigraphy	Refers to the classification of a series of layered rock or strata.
Stream-sediment survey	Systematic sampling of sediments within drainage channels.
Strike	The direction of bearing of a bed or layer of rock in the horizontal plane.
Structural	In this report refers to processes of fracturing and folding of rocks.
Thorite	Thorium silicate mineral - $(Th,U)SiO_4$.
Toll treated	Usually refers to processing at a relatively adjacent treatment facility.
True thickness	The thickness of a lens or shoot normal to its plane of maximum elongation as opposed to the thickness indicated by a drill hole intercept which may cut the lens obliquely giving a large apparent thickness.
Ultrabasic or ultramafic	Used to describe igneous rocks of very low silica content (usually < 45% SiO_2,) consisting essentially of iron and magnesium silicates to the virtual exclusion of quartz and feldspar.
Waste to ore (stripping) ratio	Tonnage/volume of waste material which must be removed to allow the mining of one tonne/cub metre of ore in an open cut.
Waste	Rock other than ore excavated during a mining operation.

ABBREVIATIONS

Au	Gold
BCM	Bank cubic metre
DCF	Discounted cash flow
EL	Exploration Licence
ELA	Exploration Licence Application
ELR	Exploration Licence in Retention
FCPL	Frances Creek Pty Ltd, a subsidiary of Territory Resources Ltd
FS	Feasibility study
g/t	Grams per tonne
ha	Hectare
IER	Independent Expert’s Report
ITSR	Independent Technical Specialist Report
kg	Kilogram
km	Kilometre
ktpa	Thousand tonnes per annum
lbs	Pounds
MA	Mineral Authority
MCC	Mineral Claim Central
ML	Mineral Lease
MLA	Mineral Lease Application
Mt	Million tonnes
Mtpa	Million tonnes per annum
M	Million
m	Metre
mm	Millimetre
Ngalia	Ngalia Resources Pty Ltd
NuPower	NuPower Resources Limited
oz	Troy ounces (1 oz = 31.10348 grams)
PCG	Pine Creek Goldfields Pty Ltd
PEM	Prospectivity Enhancement Multiple
PFS	Pre-feasibility study
ppm	Parts per million
SEL	Substitute Exploration Licence
t	Tonne
Territory	Territory Resources Ltd
tpa	Tonnes per annum
REE	Rare Earth Elements
REO	Rare Earth Oxides
RL	Reduced level

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PROXY FORM

THIS DOCUMENT IS IMPORTANT. IF YOU ARE IN DOUBT AS TO HOW TO DEAL WITH IT, PLEASE CONTACT YOUR STOCK BROKER OR LICENSED PROFESSIONAL ADVISOR.

ARAFURA RESOURCES LIMITED

ABN: 22 080 933 455

REGISTERED OFFICE:
LEVEL 5
16 ST GEORGES TERRACE
PERTH WA 6000

SHARE REGISTRY:
Security Transfer Registrars Pty Ltd
All Correspondence to:
PO BOX 535,
APPLECROSS WA 6953 AUSTRALIA
770 Canning Highway,
APPLECROSS WA 6153 AUSTRALIA
T: +61 8 9315 2333 F: +61 8 9315 2233
E: registrar@securitytransfer.com.au
W: www.securitytransfer.com.au

Code: ARU

Holder Number:

SECTION A: Appointment of Proxy

I/We, the above named, being registered holders of the Company and entitled to attend and vote hereby appoint:

☐ OR

The meeting Chairperson (mark with an "X")

The name of the person you are appointing (if this person is someone other than the Chairperson of the meeting).

or failing the person named, or if no person is named, the Chairperson of the Meeting, as my/our Proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the Proxy sees fit) at the Extraordinary General Meeting of the Company to be held at 2.30pm WST on Thursday 18 October 2012 at The Duxton Hotel, Room: Duxton 3, 1 St Georges Terrace, Perth, Western Australia and at any adjournment of that meeting.

SECTION B: Voting Directions to your Proxy

Please mark "X" in the box to indicate your voting directions to your Proxy.

Resolution	For	Against	Abstain*
1. Approval of Share Issue.	☐	☐	☐

If no directions are given my proxy may vote as the proxy thinks fit or may abstain.

* If you mark the Abstain box for a particular item, you are directing your Proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

SECTION C: Please Sign Below

This section must be signed in accordance with the instructions overleaf to enable your directions to be implemented.

Individual or Security Holder	Security Holder 2	Security Holder 3
Sole Director and Sole Company Secretary	Director	Director / Company Secretary

5235410651 Reference Number: 1 ARU 1

My/Our contact details in case of enquiries are:

NAME | **TELEPHONE NUMBER**

( )

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NOTES

1. Name and Address

This is the name and address on the Share Register of Arafura Resources Limited. If this information is incorrect, please make corrections on this form. Shareholders sponsored by a broker should advise their broker of any changes. Please note that you cannot change ownership of your shares using this form.

2. Appointment of a Proxy

If you wish to appoint the Chairperson of the Meeting as your Proxy please mark "X" in the box in Section A.

If the person you wish to appoint as your Proxy is someone other than the Chairperson of the Meeting please write the name of that person in Section A. If you leave this section blank, or your named Proxy does not attend the meeting, the Chairperson of the Meeting will be your Proxy. A Proxy need not be a Shareholder of Arafura Resources Limited.

3. Directing your Proxy how to vote

To direct the Proxy how to vote place an "X" in the appropriate box against each item in Section B. Where more than one Proxy is to be appointed and the proxies are to vote differently, then two separate forms must be used to indicate voting intentions.

4. Appointment of a Second Proxy

You are entitled to appoint up to two (2) persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second Proxy, an additional Proxy form may be obtained by telephoning the Company's share registry +61 8 9315 2333 or you may photocopy this form.

To appoint a second Proxy you must:

(a) On each of the Proxy forms, state the percentage of your voting rights or number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each Proxy may exercise, each Proxy may exercise half of your votes; and

(b) Return both forms in the same envelope.

5. Signing Instructions

Individual: where the holding is in one name, the Shareholder must sign.

Joint Holding: where the holding is in more than one name, all of the Shareholders must sign.

Power of Attorney: to sign under Power of Attorney you must have already lodged this document with the Company's share registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the Company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the Company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director may sign alone. Otherwise this form must be signed by a Director jointly with either another Director or Company Secretary. Please indicate the office held in the appropriate place.

If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be lodged with the Company before the meeting or at the registration desk on the day of the meeting. A form of the certificate may be obtained from the Company's share registry.

6. Lodgement of Proxy

Proxy forms (and any Power of Attorney under which it is signed) must be received by Arafura Resources Limited at the following address no later than 2.30pm WST on Tuesday 16 October 2012, being 48 hours before the time for holding the meeting. Any Proxy form received after that time will not be valid for the scheduled meeting.

ARAFURA RESOURCES LIMITED
PO BOX 3047
ADELAIDE TERRACE
PERTH WA 6832

Street Address:
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16 ST GEORGES TERRACE
PERTH WA 6000

Telephone **+61 8 6210 7666**

Facsimile **+61 8 9221 7966**

Email **arafura@arafuraresources.com.au**

2269410655

ABN 22 080 933 455