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## **UPDATE TO SHAREHOLDERS ECE TRANSACTION**

- **Share Subscription Agreement executed;**
- **Foreign Investment Review Board application submitted;**
- **Chinese Provincial Government approval received;**
- **Independent Expert's Report nearing completion; and**
- **Nolans Project considered sufficiently advanced by Independent Expert to be valued on a discounted cash flow basis.**

Australian Rare Earths company **Arafura Resources Limited (ASX: ARU)** ("**Arafura**" or the "**Company**") is pleased to provide a progress update on the capital injection of approximately A\$9.9 million by major shareholder ECE Nolans Investment Company Proprietary Limited ("**ECE Nolans**").

ECE Nolans has agreed to subscribe for 45,266,500 shares in the Company at an issue price of A\$0.22 per share (ASX: ARU 19/06/12). The companies can now advise that the Share Subscription Agreement ("**SSA**") has been formally executed.

The SSA is subject to a number of approvals including:

- Australian Government Foreign Investment Review Board ("**FIRB**");
- Jiangsu Provincial Government; and
- Arafura Shareholders.

Following the execution of the SSA, ECE Nolans submitted its FIRB application to the Australian Government on 31 August. The approvals process is expected to take around 30 days.

Approval for the transaction has already been received from the Jiangsu Provincial Government.

Arafura is preparing a notice of meeting ("**NOM**") for a general meeting to be convened in late October, at which Arafura shareholders will be asked to vote on the transaction. The NOM requires the preparation of an Independent Expert's Report ("**IER**") which will contain a valuation range for Arafura's assets and specifically the Nolans Project. Arafura has engaged BDO Corporate Finance (WA) Pty Ltd to prepare the IER.

Arafura is progressing the Nolans Project feasibility study as its highest priority, and recently advised the advanced status of the Project in a comprehensive report (Nolans Project Update; ASX: ARU 07/08/12). Following this report, the Independent Expert has determined that a discounted cash flow ("**DCF**") methodology is appropriate

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to value the Nolans Project. This will provide Arafura with a more detailed, third-party assessment of the Project's key economic factors.

Arafura's Chief Executive Officer, Chris Tonkin, said, "The Independent Expert's satisfaction that the Nolans Project is sufficiently advanced to be valued using a DCF analysis provides an encouraging third party validation of the strong progress that has been achieved. This has prompted the Company to request an independent assessment of whether the Mineral Resource at Nolans Bore can be converted to an Ore Reserve. This process will underpin the feasibility and valuation of the Nolans Project and, more importantly, has the potential to open up a wider range of funding opportunities."

"We are encouraged by the support we continue to receive from our largest shareholder, ECE. Arafura's Independent Directors recommend that shareholders vote in favour of the transaction, which has been struck at a substantial premium to the prevailing share price."

Arafura's advanced feasibility study has developed a Base Case that includes a mine and concentrator at Nolans Bore in the Northern Territory, and a chemical processing operation at Whyalla in South Australia. The Project's Base Case of 20,000 tonnes per annum of Rare Earth Oxide products generates a net present value of A\$4.3 billion at a 10% discount rate, an internal rate of return of 30% on an after tax basis over 20 years, and capital payback within four years of operation.

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