



AN EMERGING RARE EARTHS PRODUCER
FOR USERS WORLDWIDE

17 January 2012
Mr Dave Filov
Advisor, Listings (Perth)
ASX Compliance Limited
Level 8, Exchange Plaza
2 The Esplanade
Perth WA 6000

RE: Response to ASX Price & Volume Query

Dear Dave,

Thank you for your telephone call and subsequent letter dated 17 January 2012.

As discussed, Arafura ("The Company" or "ARU") is advancing many aspects of the Bankable Feasibility Study (BFS) at its Nolans Rare Earths Project.

Key ongoing activities include:

- A major drill program of approximately 52 km to improve resource confidence and expansion potential was completed in 2011. Assessment of results is in progress;
- A global investor update co-ordinated by our recently appointed corporate advisors, Macquarie Capital (Australia) Limited;
- Construction and commissioning of a large scale demonstration facility to enable target customers and financiers opportunities to confirm our technology capabilities
- Production of first quantities of three different rare earth oxides for target customer assessment as part of our ongoing marketing plan.

The major drill program was under taken in 2011 (ASX: 14-Feb-11) with significant new mineralisation reported at depth and in new zones throughout 2011. (ASX: 28-Jul, 22-Aug, 10-Oct, 13-Oct, 21-Nov-11) Analysis of the assays is nearing completion and will cumulate in a revised JORC Resource statement being released in the next few weeks.

On 6-Dec-11 Arafura announced it had appointed Macquarie Capital (Australia) Limited as corporate advisor to assist with financing the completion of the Nolans BFS. The Company has recently completed a global and domestic investor update (ASX: 6-Dec).

In an ASX release on the 22-Dec-11 the Company provided an update on its key technology programs. Demonstration scale facilities (in the order of 1:200) have been operating and or commissioning throughout 2011 and 2012. The facilities will enable target customers and potential financiers to assess Arafura's proven technology at a scale significantly larger than previous piloting activities.

In parallel with the demonstration activities outlined above, Arafura has been processing, through its smaller pilot plant, material previously obtained from Nolans. The aim of this activity was to refine to specific customer needs the products produced and announced on ASX: 4-Jan-11. The company has today received final assays from the Australian Nuclear Science and Technology Organisation (ANSTO) confirming the production of 3 Rare Earth Oxide products at specifications provided by Arafura and required by targeted customers (ASX: 17-Jan-11). These samples will now be available for customers to assess for the purposes of progressing off-take arrangements.

ARAFURA RESOURCES LIMITED

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

PERTH: Level 5/16 St Georges Terrace, Perth WA 6000 | PO Box 5773, St Georges Terrace, Perth WA 6831 T: +618 6210 7666 F: +618 9221 7966

DARWIN: 18 Menmuir Street, Winnellie NT 0820 | PO Box 37220, Winnellie NT 0821 T: +618 8947 5588 F: +618 8947 5599

WHYALLA: Unit 18, 11 Darling Terrace, Whyalla SA 5600 | PO Box 511, Whyalla SA 5600 T: +618 8645 5509 F: +618 8645 1856

Rare earth prices have risen significantly over the past 18 months as global demand continues to exceed supply. Prices have reduced from 2011 highs, but are still almost 1000% higher than levels in 2009. Current prices now however, are only now just approaching similar levels (in constant 2010 terms) as those in the late 1980's, prior to the Chinese dominance in the rare earths supply chain.

Arafura's Nolans deposit in central Australia represents one of only a few significantly large and technologically proven resources of these strategic elements and likely to be in production this decade.

Rare Earths are key strategic inputs to a range of high-technology products which include energy efficient light bulbs, re-chargeable batteries, wind turbines, hybrid vehicle technology and advanced electronics such as i-pods, military navigation systems and plasma panels.

Government and industry are becoming increasingly aware of their reliance on the People's Republic of China for the raw materials which are essential in meeting their greenhouse gas abatement strategies, energy conservation and are at the core of the performance of their end products. Increasingly, rare earth users outside China are seeking new suppliers from non-Chinese sources. Arafura's "all Australian" business model will provide customers with a stable, key strategic supplier of rare earths for users worldwide.

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

1. The Company is not aware of any information that has not been announced which could be an explanation for recent trading in the securities of the Company.
2. The answer to question 1 is "No", therefore question 2 is "Not Applicable"
3. Other than stated above, the Company does not have any other explanation for the price change and volume increase.
4. The Company confirms that it is in compliance with the Listing Rules and in particular Listing Rule 3.1

Should you require further information, please contact me.

Yours sincerely



Gavin Lockyer
Company Secretary
Arafura Resources Limited.



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

GPO Box D187
PERTH WA 6840

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

17 January 2012

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

Dear Gavin

Arafura Resources Limited (the "Company")

PRICE AND VOLUME QUERY

We have noted a change in the price of the Company's securities from a closing price of \$0.37 on Friday 13 January 2012 to an intra-day high of \$0.455 today, 17 January 2012. We have also noted an increase in the volume of trading in the securities over this period.

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

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

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

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

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

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

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

Your response should be sent to me by email to Dave.Filov@asx.com.au or on facsimile number (08) 9221 2020. It should not be sent to the Company Announcements Office.

Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event, **not later than 2pm (WST) today 17 January 2012.**

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

Listing rule 3.1

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

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

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

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

Trading halt

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

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

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

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

Yours sincerely

[sent electronically without signature]

Dave Filov
Adviser, Listings (Perth)