



AN EMERGING RARE EARTHS PRODUCER
FOR USERS WORLDWIDE

19 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 Query

Dear Dave,

Thank you for your telephone call and subsequent letter dated 18 January 2012.

Arafura ("The Company" or "ARU") is a company focussed on advancing the Nolans project and aiming to be the recognised leading producer of rare earths for users worldwide. Since discovery of the Nolans Rare Earth deposit the company has developed its own technology to extract and produce rare earth oxides and is now refining the processes to make products to meet specific customer needs.

Rare earth resources each have different mineralogy and the technology to commercialise their value is not standard across the industry or readily available outside the People's Republic of China.

Arafura's program to commercialise the resource began in 2004. During 2005 and 2006 Arafura received Research and Development and Commercial Ready Grants from both Austrade and AusIndustry respectively, a sign from these Australian Government agencies that rare earths hold strategic importance to Australia and the world.

Following a hiatus in work programs in 2008 and 2009 brought about by the global financial crisis, the Company was pleased to announce (ASX:13 September 2010) that it had successfully produced commercial quality separated mid (Samarium, Europium & Gadolinium "SEG") and heavy (Terbium, Dysprosium, Holmium, Erbium, Thulium, Ytterbium, Lutetium, Yttrium "Heavies") rare earth oxides (REO) at laboratory scale and it intended to conduct further laboratory tests on the light rare earth oxides (Lanthanum, Cerium, Praseodymium, Neodymium). This work was to be followed by a pilot plant to produce samples in a quantity that could be assessed for commerciality.

The continuation of the laboratory work through the last quarter 2010 led to the announcement on the 4 January 2011 of the successful production of separated Cerium and mixed Neodymium/Praseodymium products.

Having successfully produced these products at laboratory scale, in 2011, the Company advanced its interaction with targeted customers in order to design the piloting activities which had been previously announced (ASX 13 September 2010) to produce products to meet those specific customer specifications.

Rare earth oxide production was undertaken at the Australian Nuclear Science and Technology Organisation (ANSTO) facilities at Lucas Heights in New South Wales throughout the second half of 2011. In September 2011 Arafura provided the market with an update on the technology program as part of a wider presentation on all aspects of the Nolans Project (ASX 30

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September 2011). Slide 7 of this presentation shows an expected timeline for completion of the "rare earth purification and separation to customer specifications" work program, that being, the end of 2011.

The company received confirmatory final product analysis from ANSTO mid-morning (WST) on Tuesday 17 January and following internal clarification, announced to the ASX shortly thereafter.

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

1. The Company does not consider the announcement material pursuant to listing rule 3.1
2. Apart from the information provided above, timing of information is as follows:
 - 1) Evening of 23 December 2011 - first indicative, inconclusive results received by Arafura's technical personnel. Further analysis required.
 - 2) Arafura's offices closed 23 December – 4 January.
 - 3) ANSTO's key technical staff on leave from 23 December - 16 January however;
 - 4) Monday 9 -16 January - further analysis undertaken by ANSTO personnel.
 - 5) Tuesday 17 January as described above.
3. The answer to question 1 is "No", therefore question 3 is "Not Applicable"
4. The Company believes that the announcement was confirmatory of previous announcements and therefore not material new information. In any case, if the information could be considered material, until the time of receipt of final confirmation from ANSTO the information was insufficiently definite to warrant disclosure, particularly in light of 2.1) as more development work may have been required and a reasonable person would not expect the information to be disclosed. We also note that the Company's share price & volume had increased before the Company had received the final confirmation results as noted above.
5. The Company confirms that it is in compliance with the Listing Rules and in particular Listing Rule 3.1

Should you require further information, please contact me.

Yours sincerely

(sent electronically without signature)

Gavin Lockyer
Company Secretary
Arafura Resources Limited.



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18 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")

We refer to:

- the recent 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 \$0.485 on Tuesday 17 January 2012;
- the price query letter from ASX dated 17 January 2012;
- the Company's announcement released to ASX on 17 January 2012 at 2:30pm (AEDT) titled "MARKETING PROGRAM UPDATE Significant Milestone Achieved: Arafura Produces First Rare Earth Oxide Samples for Target Customers" ("Announcement"); and
- the Company's response to the price query letter dated 17 January 2012 ("Price Query Response").

The Announcement provided, among other things, that:

Arafura has completed a series of meetings with target customers to understand their future product and quality needs. A significant milestone has now been achieved in Arafura's marketing program with production of the first Rare Earth Oxide samples for target customer evaluation.

...

Arafura is now pleased to announce that the first Rare Earth Oxide samples for customer evaluation have been produced from the Nolans Bore resource. Rare Earth Oxides have been separated at ANSTO on a pilot scale basis. ("REO Sample Production Information")

The Price Query Response provided, among other things, that:

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 target customers (ASX:17-Jan-11)(sic.)

We wish to draw your attention to the definition of "aware" in chapter 19 of the listing rules which states that:

"an entity becomes aware of information if a director or executive officer (in the case of a trust, director or executive officer of the responsible entity or management company) has, or ought reasonably to

have, come into possession of the information in the course of the performance of their duties as a director or executive officer of that entity"

Further, we wish to draw your attention to listing rule 3.1 which 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.

Paragraph 18 of Guidance Note 8 states:

"Once a director or executive officer becomes aware of information, he or she must immediately consider whether that information should be given to ASX. An entity cannot delay giving information to ASX pending formal sign-off or adoption by the board, for example."

Please note that for disclosure not to be required under listing rule 3.1, all of the exceptions under listing rule 3.1A must apply:

- "3.1A.1 A reasonable person would not expect the information to be disclosed.*
- 3.1A.2 The information is confidential and ASX has not formed the view that the information has ceased to be confidential.*
- 3.1A.3 One or more of the following applies.*
- It would be a breach of a law to disclose the information.*
 - The information concerns an incomplete proposal or negotiation.*
 - The information comprises matters of supposition or is insufficiently definite to warrant disclosure.*
 - The information is generated for the internal management purposes of the entity.*
 - The information is a trade secret."*

Finally, we would like to draw your attention to ASX's policy position on the concept of "confidentiality" which is detailed in paragraphs 34 to 40 of Guidance Note 8. In particular, paragraphs 34 and 35 of the Guidance Note state that:

*"'Confidential' in this context has the sense of 'secret'.
Loss of confidentiality may be indicated by otherwise unexplained changes to the price of the entity's securities, or by reference to the information in the media or analysts' reports".*

Having regard to the Announcement, the above definitions, listing rule 3.1 and Guidance Note 8 - Continuous Disclosure, we ask that you answer the following questions in a format suitable for release to the market in accordance with listing rule 18.7A:

1. Does the Company consider the REO Sample Production Information to be material to the Company pursuant to listing rule 3.1?
2. When did the Company become aware of the REO Sample Production Information? Please include details of the relevant time and circumstances of the Company becoming aware of the REO Sample Production Information.

3. If the answer to any part of question 1 is "yes" and the Company became aware of the REO Sample Production Information (or any part of it) prior to the release of the Announcement, please advise why the REO Sample Production Information was not released to the market at an earlier time? Please comment specifically on the application of listing rule 3.1.
4. If the answer to question 1 is "no", please advise the basis on which the Company does not consider the REO Sample Production Information to be material.
5. Please confirm that the Company is in compliance with listing rule 3.1.

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

Please note the ASX reserves its right under listing rule 18.7 to release this letter and the Company's response to the market. Accordingly the Company's response should address each question separately and be in a format suitable for release to the market.

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. 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 **5:00pm (WST) tomorrow, being Thursday 19 January 2012.**

Your response should be sent to ASX by facsimile on **facsimile number+61 8 9221 2020**. It should not be sent to the Company Announcements Office.

If you have any queries regarding any of the above, please contact me on +61 8 9224 0014.

Yours sincerely,

[sent electronically without signature]

Dave Filov
Adviser, Listings (Perth)