

BUSINESS UPDATE

Arafura Resources Limited (ASX:ARU) (Arafura or the Company) provides the following update.

As previously announced on 1 February 2012 the company has reduced the rate of work on its Nolans Project until additional funding is secured. The current work focus is on critical work stream items. This is a prudent approach in challenging financial markets.

Good progress has been achieved and reported in recent months. This includes significant intercepts of new mineralization at Nolans and the production of three different rare earth oxide products for customer evaluation. However, it is taking longer than previously envisaged to complete some of these critical activities. Successful completion of this work is essential for the Nolans Project to progress to the next steps.

The full impact of the above on the company's schedule to deliver its Nolans Project Bankable Feasibility Study is uncertain until the availability of sufficient funding is known. However, subject to the availability of adequate funding progressively from March 2012, it is currently estimated that the Nolans Project Bankable Feasibility Study will not be completed prior to Q3 2013. Further delay may be experienced if the Company does not secure additional funding within a reasonable time frame.

The following critical work streams will be continued over the coming months subject to availability of sufficient funding:

- Rare Earth Oxide Separation of Cerium and Lanthanum.
- Delivery of an updated Resource model.
- Beneficiation test work
- Rare Earths Demonstration plant.
- Completion of laboratory work for the simplification of the phosphate circuit and production of a solid phosphate product
- Laboratory- based preparation work for the integrated pilot work

The company currently has \$26.9m in cash to meet immediate commitments. The Company is exploring various possible sources of funding and is working closely with its Corporate Advisor Macquarie Capital (Australia) Limited.

For further information contact:

Dr Steve Ward
Managing Director & CEO

Arafura Resources Ltd
T: +61 8 6210 7666



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