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ARAFURA EXPANDS SCOPE FOR NOLANS PROJECT BANKABLE FEASIBILITY STUDY

HIGHLIGHTS:

- Arafura expands scope of Bankable Feasibility Study (BFS) for the Nolans Project;
- Expanded BFS scope includes pursuit of opportunities to simplify the Nolans Project flow sheet to focus predominately on production of rare earth products;
- Additional work has significant potential to reduce operating and capital costs and de-risk the proposed Rare Earths Complex at Whyalla;
- BFS completion date extended by nine to twelve months to complete new work targeted to maximise the inherent value of the Nolans Project;
- Arafura is currently well funded, with A\$79 million cash at end of May 2011;
- The Company estimates that additional funding in the order of A\$50-A\$60 million will be needed for the expanded BFS and other costs originally envisaged as part of project financing, but now brought forward due to the revised schedule;
- The Nolans Project will be an integrated Rare Earths Oxide project (mine to market), using a production process developed in Australia, and will be one of the first major producers outside of China for users worldwide.

Australian rare earths company Arafura Resources Limited (**ASX: ARU**) (**Arafura** or **the Company**) today advised it has extended the expected completion date of the Nolans Project Bankable Feasibility Study (BFS) by nine to twelve months.

Rare Earth Oxide (REO) prices have moved sharply upwards in the past 12 months, with the average valuation for the Nolans Rare Earths mix lifting to US\$207.53/kg (FOB)* in June 2011, a 1221% increase compared to the June 2010 value. Arafura expects higher prices for rare earth products to continue and is pursuing opportunities to simplify its flow sheet to focus predominately on rare earths.

The BFS was expanded following a detailed technical review by the Company and its team of consultants, which are leading global experts in large scale mineral processing projects such as Nolans. This review identified additional work programs which have significant potential to reduce operating and capital costs and further reduce risks associated with start-up of the proposed Rare Earths Complex at Whyalla.

Arafura Managing Director & CEO Dr Steve Ward said, "The entire project flow sheet was extensively analysed as part of the technical review. A key outcome was identification of potential opportunities to simplify the flow sheet, which we believe will enable Arafura to maximise the inherent value of the Nolans Project. Our focus will be very much on Rare Earths with a de-emphasis on the other products which may be produced in simpler alternate forms using standard engineering designs. Importantly, the simplified flow sheet will reduce interdependency risks between the rare earth plant and the other product plants."

* Based on Metal Pages China export FOB prices, as of 8 June 2011

ARAFURA RESOURCES LIMITED

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

PERTH: Level 5/16 St Georges Tce, Perth WA 6000 | PO Box 3047, Adelaide Terrace, Perth WA 6832 T: +618 6210 7666 F: +618 9221 7966

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

WHYALLA: Unit 18, 11 Darling Tce, Whyalla SA 5600 T: +618 8645 5509 F: +618 8645 1856



Major work in the expanded BFS includes:

1. Design and optimization of a modified mine site beneficiation circuit which aims to generate a higher mineral concentrate grade with associated reduction in reagent, transport, capital and waste management costs, both at the Nolans Bore Mine and Whyalla Rare Earths Complex;
2. Further test work and refinement of R&D programs by the Australian Nuclear Science and Technology Organisation (ANSTO) to produce separated Rare Earth products to customer specifications; and
3. Undertaking detailed technical studies on major interaction points in a simplified process flow sheet to provide further confidence in process technology and reduce start-up risk.

Arafura is currently well funded, with A\$79 million cash at end of May 2011. The Company estimates that additional funding in the order of A\$50-A\$60 million will be needed for the expanded BFS and other costs originally envisaged as part of project financing, but now brought forward due to the revised schedule. The Company will consider financing options for these additional requirements and timing in due course.

Dr Steve Ward said that “Nolans is a world-class project that will value-add to Australian resources, in Australia, using Australian technology, and will provide secure supply of Rare Earth products to targeted customers worldwide for the coming decades.

“We are very focussed on maximising value to shareholders, minimising risks and ensuring sustainable design production rates are achieved at the earliest possible opportunity. The value engineering work undertaken with our expert advisers is an important part of achieving these aims. We are pleased with the outcomes from this work and are confident it will deliver long-term additional value.”

Higher Grade Mineral Concentrate

Recent trialling of new physical separation processes has identified the potential to generate a significantly higher grade mineral concentrate from the proposed Nolans Bore Mine. Given the potential benefits across the Nolans Project, extensive geological and metallurgical testing is in progress.

Dr Ward said, “Production of a higher grade mineral concentrate would deliver substantial savings over the life of the project due to reduced reagent, transport, capital and waste management costs.”

Further development of REO separation technology

In 2010, Arafura took the decision to invest in development of technology to produce higher value Rare Earth Oxide products rather than intermediate products. This decision allows the Company to conduct business with a much wider customer base.

Dr Ward said, “Arafura has made excellent progress on its technology development program to produce REOs in the past year. Laboratory and pilot scale work is continuing, including further refinement, separation and quality assurance work streams, in consultation with technical experts at ANSTO and targeted customers to meet their commercial specifications. We have been very active meeting with target customers in Europe, the US, Japan and Korea in recent months. Their feedback has been extremely helpful in refining our work programs as we progress towards commercial arrangements with them.”



Technical studies on isolated interaction points in process flow sheet

In the past year, Arafura has engaged a number of expert mining and engineering companies to advise the Company on key aspects of the Nolans Project. These include Lycopodium (Mining) and Parsons Brinkerhoff (Owner's engineering team) and AMEC Minproc (Engineering Study Manager).

It has been recommended that Arafura undertake additional technical studies on major interaction points in the process flow sheet to provide further confidence in process technology and reduce start-up risk.

Dr Ward said, "Successful pilot/demonstration test work on individual components of the processing circuit has been completed or is currently planned. Additional work to assess key interaction points takes this work one step further to provide increased confidence in process technology and reduce start-up risk.

Resource expansion

The resource expansion phase of the Nolans Bore drilling program is now well underway, with the recent completion of the shallow RC component. The remaining months of the program will concentrate on extending Rare Earths mineralization to depths beyond 150 metres below surface.

Dr Ward said, "Drilling activity aimed at enhancing our confidence in the Nolans Bore resource, primarily through infill drilling, is now complete. An exciting resource expansion phase is in full swing. We will, by year's end, have a much clearer understanding of our deposit's capability to support expanded production far into the future. Sample analysis and geological interpretation of the drill data is well underway."

Dr Ward said, "The Nolans Project will be an integrated Rare Earths Oxide project, using a production process developed in Australia, and will be one of the first major producers outside of China for users worldwide. The funding received late last year has enabled Arafura to increase its team of expert consultants to compliment its in-house capabilities and to proceed at full pace. The expanded BFS which has been established by this team provides the platform to deliver the maximum value from the world class Nolans Project in a sustainable way."

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For further information contact:

CORPORATE

Dr Steve Ward
Managing Director & CEO
Arafura Resources Ltd
T: +61 8 6210 7666

MEDIA

Felicity Nuttall
Professional Public Relations
T: +61 8 9388 0944
M: +61 430 184 599
E: media@arafuraresources.com.au