

Arafura Resources NL

ACN 080 933 455

NuPower Resources Limited

ACN 120 787 859

Prospectus

For the purposes of a proposed reduction of capital by Arafura Resources NL (“Arafura”) by way of in-specie distribution of shares in NuPower Resources Limited (“NuPower”) by Arafura to Eligible Demerger Shareholders

And for the purposes of Section 707 of the Corporations Act 2001 and NuPower issuing to Arafura the NuPower Shares, Arafura distributing those NuPower Shares to Eligible Demerger Shareholders, and those NuPower Shares subsequently being sold or transferred

And for the purposes of NuPower granting the NuPower Quoted Options to Eligible Demerger Optionholders, the NuPower Class A Options to the Eligible Arafura Executive Optionholders, and the NuPower Class B Options to the Eligible Arafura Employee Optionholders

This document is important and requires your immediate attention. It should be read in its entirety.

You are not however required to do anything in relation to this document.

If you do not understand its contents, or have doubts over which course of action you should follow, you should consult your stockbroker or professional adviser.

The securities distributed pursuant to this Prospectus should be considered as speculative.

Important information

This document is important and requires your immediate attention. You should read this entire Prospectus carefully. It is important that you consider the risk factors (see section 8) that could affect Arafura's and NuPower's financial performance, before deciding on your course of action.

This Prospectus is dated 12 January 2007. A copy of this Prospectus was lodged with the ASIC on 12 January 2007. This Prospectus expires on the Expiry Date of 12 July 2007 and no securities will be allotted, issued, transferred or distributed on the basis of this Prospectus, after this time.

NuPower will apply to the ASX for the NuPower Shares and for the NuPower Quoted Options to be quoted on the ASX within 7 days after the date of this Prospectus.

Optionholders in Arafura have the opportunity to exercise their Arafura Options to acquire Arafura Shares and become Eligible Demerger Shareholders, or to not exercise their Arafura Options and become Eligible Demerger Optionholders.

No person is authorised to give information or to make any representation in connection with this Prospectus which is not contained in the Prospectus. Any information or representation not so contained may not be relied on as having been authorised by Arafura or NuPower in connection with this Prospectus.

Some words in this Prospectus have defined meanings. The definitions appear in the Glossary at the end of this Prospectus. References to dollars are to Australian dollars unless otherwise indicated.

Neither the ASIC nor the ASX take any responsibility for the contents of this Prospectus, or the merits of the investment to which this Prospectus relates.

Future performance

Except as required by law, and only then to the extent required, neither Arafura, NuPower nor any other person, guarantees the future performance of Arafura or NuPower or any return on any investment made pursuant to this Prospectus.

The securities distributed pursuant to this Prospectus should be considered as speculative.

Joint Chairman's letter

Dear Arafura Shareholders and Optionholders

In 2006 Arafura announced a proposed major corporate restructure to demerge the company's Northern Territory uranium projects to become the basis of a new uranium exploration and investment company called NuPower Resources Limited. Under the proposal Arafura retains the rare earths, gold and iron-ore assets, with a particular focus on developing the Nolans Bore rare earths project.

If the Demerger is approved, it is NuPower's intention to apply to be admitted to the Official List of ASX.

The proposed Demerger has been preceded by a successful rights issue by Arafura which closed on 14 December 2006 and raised approximately \$10.6 million (net of transaction costs).

Funds raised by Arafura's rights issue will provide NuPower's working capital for the on-going evaluation of uranium projects as well as additional working capital for Arafura.

The Board believes that the structure of the proposal will deliver the best outcome to shareholders, minimising potential dilution.

At a time of growing demand for uranium, the proposed Demerger will deliver to Arafura's shareholders direct ownership in a dedicated uranium exploration company focused on the Northern Territory of Australia.

This proposed structure allows shareholders flexibility of investments in Arafura (with exposure to resources in rare earths, phosphate and gold, and an iron ore royalty stream) and a holding in a uranium focused exploration company.

After the Demerger, Arafura will focus on the development of its major resource of rare earths and phosphate at the Nolans Bore project. The project has the capability of delivering long-term value to shareholders in products which have a strong growth and price outlook. Rare earths are essential materials in the hybrid car industry where they are used for magnets in electric motors, rechargeable batteries and automotive catalysts.

The Demerger is subject to regulatory approval and the approval of Arafura's shareholders at a General Meeting which is detailed in the Notice of Meeting which accompanies this Prospectus.

If regulatory and shareholder approval is obtained, Arafura will proceed with the in-specie distribution of the NuPower Shares, and NuPower will issue the NuPower Options. Only Arafura shareholders registered on the Demerger Record Date will receive NuPower Shares.

Arafura has established a Shareholder Information Line on 1800 217 828 which you can call for information about the Demerger.

You can access up-to-date announcements and information on the Demerger from our website at www.arafuraresources.com.au.

We strongly believe that the Demerger proposed in this Prospectus and the accompanying Notice of Meeting provides Arafura shareholders with an exceptional opportunity to invest in two very focussed companies. We trust that your review of the proposals put forward in this Prospectus will lead you to agree with us, and we urge shareholders to support the re-structuring of Arafura and the establishment of NuPower.

Yours faithfully

A handwritten signature in black ink, appearing to read 'P Walker', written over a thin horizontal line.

Peter Walker
Chairman
Arafura Resources NL

A handwritten signature in black ink, appearing to read 'I.G. Muir', written over a thin horizontal line.

I.G. (Mick) Muir
Chairman
NuPower Resources Limited

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Summary of Important Dates

Table 1: Key Dates

Arafura Shareholders Meeting	16 February 2007
If Arafura Shareholder approval obtained, Demerger Record Date to determine:	26 February 2007 (7pm Sydney time)
(1) Arafura Shareholders entitled to receive distribution of NuPower Shares;	
(2) Arafura Quoted Optionholders who will be granted NuPower Quoted Options;	
(3) Arafura Executive Optionholders who will be granted NuPower Class A Options; and	
(4) Arafura Employee Optionholders who will be granted NuPower Class B Options.	
Reset of the exercise price for Arafura Quoted Options, Arafura Employee Options and Arafura Executive Options.	26 February 2007 (7pm Sydney time)
Settlement of the Asset Sale and Subscription for NuPower Shares	26 February 2007 (8pm Sydney time)
NuPower grants NuPower Options to Eligible Demerger	26 February 2007

Optionholders	(8pm Sydney time)
Distribution by Arafura of NuPower Shares to Eligible Demerger Shareholders	27 February 2007
Expected date of dispatch of holding statements to NuPower Shareholders and NuPower Optionholders	28 February 2007
Expected date on which NuPower Shares and NuPower Quoted Options can be traded on ASX	5 March 2007

The above dates are indicative only and may change without notice.

The granting of Official Quotation by the ASX of the NuPower Shares and the NuPower Quoted Options is subject to ASX approval.

Arafura Quoted Optionholders who wish to exercise their options and acquire Arafura shares and become entitled to NuPower Shares must ensure that a valid option exercise notice together with cleared funds is received by the Share Registry no later than 20 February 2007 in order to ensure that they are on the Arafura register of shareholders by the Demerger Record Date.

Definitions

Throughout this Prospectus, various words and phrases have been capitalised and defined, rather than used in full on each occasion. The definitions of these capitalised words are set out in Section 14 of this Prospectus.

1 The Purpose of this Document

This Prospectus has been issued for the following purposes:

1. For the purposes of a proposed reduction of capital by way of in-specie distribution by Arafura of the NuPower Shares to the Eligible Demerger Shareholders.
2. For the purposes of Section 707 of the Corporations Act 2001 (Cth) as that Section applies to NuPower issuing the NuPower Shares to Arafura, Arafura distributing those NuPower Shares to Eligible Demerger Shareholders and those NuPower Shares subsequently being sold or transferred.
3. For the purposes of NuPower granting the NuPower Options.

Any questions concerning the Prospectus should be directed to the Arafura Shareholder Information Line on 1800 217 828, or to the Company Secretary.

2 Details of the Proposed Demerger

2.1 Introduction

On 28 April 2006, the Board of Arafura announced a proposal to transfer Arafura's Northern Territory uranium projects into a separate listed company through the Demerger.

The Demerger will deliver to Arafura's Shareholders direct ownership in a dedicated uranium exploration company focused on the Northern Territory of Australia while retaining their shares in Arafura. This will allow Arafura Shareholders exposure to resources in rare earths, phosphate and gold, and an iron ore royalty stream and a new separate holding in a uranium focused company.

Arafura will continue to focus on evaluating the Nolans Bore project. The uranium contained in the Nolans Bore resource will be retained by Arafura rather than be transferred to NuPower owing to the metallurgical characteristics of the resource. All other uranium assets and rights owned by Arafura will be transferred to NuPower.

2.2 Proposed Demerger Stages

If all required approvals are obtained, the Demerger will be effected as follows:

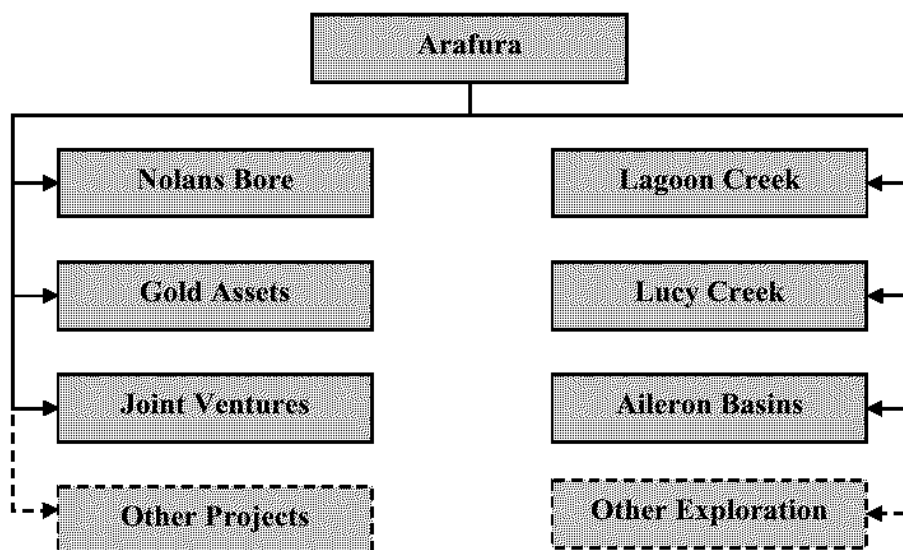
1. Arafura Shareholders approve the Demerger.
2. Arafura transfers the Demerger Assets and \$8.8 million for working capital to NuPower, in consideration for NuPower issuing approximately 43,883,268* NuPower Shares to Arafura.
3. NuPower issues 5,735,386* NuPower Quoted Options to Eligible Quoted Optionholders, in the ratio of 1 NuPower Option for every 3 existing Arafura Options.
4. NuPower will issue 1,333,333 NuPower Class A Options to Eligible Arafura Executive Optionholders, in the ratio of 1 NuPower Option for every 3 existing Arafura Options.

5. NuPower will issue 233,332 NuPower Class B Options to Eligible Arafura Employee Optionholders, in the ratio of 1 NuPower Option for every 3 existing Arafura Options.
6. Arafura will distribute 90% of NuPower Shares issued to Arafura to the Eligible Demerger Shareholders at no cost, in the ratio of 1 NuPower Share for every 3 existing Arafura Shares.
7. NuPower will, subject to ASX approval, list on the ASX and the NuPower Shares and the NuPower Quoted Options will be granted Official Quotation by the ASX.

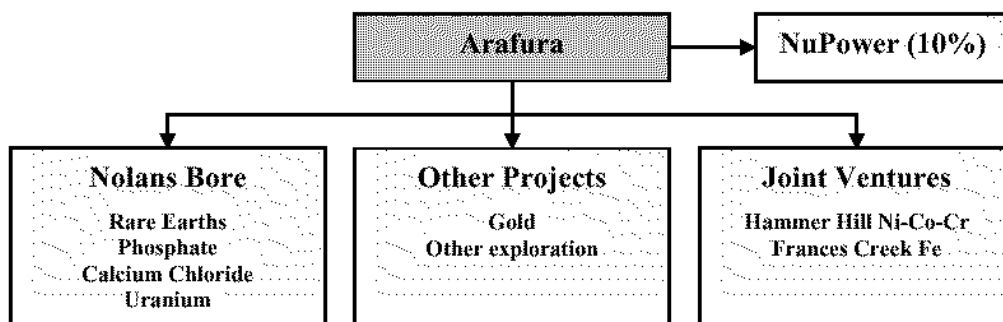
*Note: This number has been determined using the number of Arafura Shares and Arafura Options on issue as at the date of this Prospectus. The actual number of securities issued will be determined by the number of Arafura Shares and Arafura Options on the Demerger Record Date. This number will change if Arafura Options are exercised prior to the Demerger Record Date.

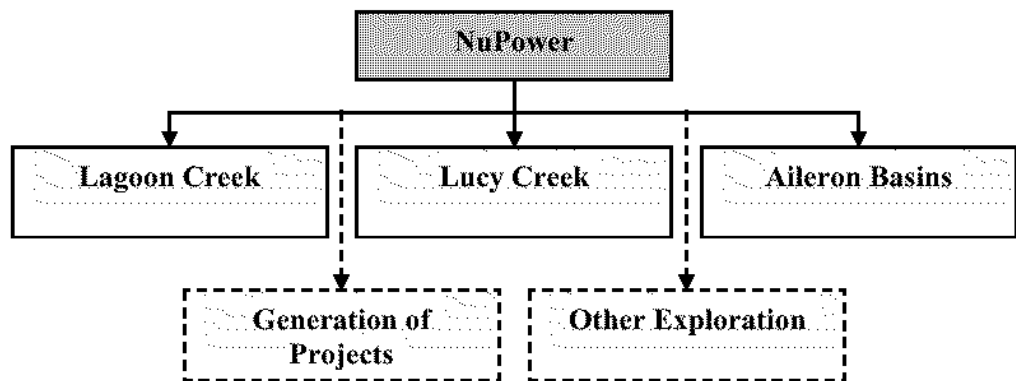
The Proposed Demerger is summarised in the diagrams below:

(a) **Pre Demerger**



(b) **Post Demerger**





2.3 Approvals required for the Demerger

The Demerger is subject to Arafura Shareholder and regulatory approvals.

Shareholder approval will be sought at an Arafura shareholders' meeting scheduled for 16 February 2007. The relevant Notice of Meeting (including an Explanatory Memorandum) will be mailed to Shareholders in January 2007.

2.4 Details of the in-specie distribution by Arafura of NuPower Shares to Arafura shareholders

Arafura intends to distribute 90% of the NuPower Shares issued to Arafura by NuPower to Eligible Demerger Shareholders who are recorded on Arafura's share register on the Demerger Record Date, in the ratio of 1 NuPower Share for every 3 existing Arafura Shares. Holdings of NuPower Shares will be rounded up or down to the nearest whole number.

2.5 Details of the grant by NuPower of NuPower Options to Eligible Arafura Optionholders

NuPower intends to grant NuPower Options to holders of Arafura Options in the ratio of 1 NuPower Option for every 3 existing Arafura Options, who are recorded on Arafura's options register as at the Demerger Record Date, as follows:

- (1) NuPower Quoted Options to Eligible Quoted Optionholders;
- (2) NuPower Class A Options to Eligible Arafura Executive Optionholders;
and
- (3) NuPower Class B Options, to Eligible Arafura Employee Optionholders.

Holdings of NuPower Options will be rounded up or down to the nearest whole number.

The NuPower Options will be granted on terms set out in Sections 10.2, 10.3 and 10.4 of this Prospectus and also set out in the Notice of Meeting sent to Arafura Shareholders.

2.6 Details of Demerger Assets to be transferred

The Demerger Assets which Arafura proposes to transfer to NuPower are set out in detail below in Section 4 of this Prospectus.

3 Overview of NuPower

3.1 Background

NuPower was incorporated on 14 August 2006 and has not traded since incorporation. It has 2 shares on issue, both of which are held by Arafura. NuPower was incorporated for the sole purpose of purchasing the Demerger Assets from Arafura and then listing on the ASX.

3.2 Purchase of Demerger Assets by NuPower

NuPower and Arafura entered into the Asset Sale and Subscription Agreement under which NuPower agrees to purchase the Demerger Assets and receive \$8.8 million cash from Arafura, provided certain conditions are met. The material terms of the Asset Sale and Subscription Agreement are summarised in Section 9.1.

3.3 Use of Funds by NuPower

If Arafura Shareholders approve the Demerger, then NuPower proposes to use the \$8.8 million of funds transferred to NuPower by Arafura to develop the Demerger Assets as follows:

Table 2: NuPower Funds Allocation

	2007 Feb-Jun	2008 Fiscal Year	2009 Fiscal Year	2009 Jul-Dec	Total \$
Geochemistry	100,000	100,000	200,000	200,000	600,000
Geophysics	250,000	250,000	150,000	150,000	800,000
Drilling	220,000	400,000	650,000	540,000	1,810,000
Geology	50,000	50,000	50,000	50,000	200,000
Environmental Rehabilitation	50,000	50,000	100,000	100,000	300,000
Statutory reporting	10,000	10,000	15,000	15,000	50,000
Tenement Maintenance	50,000	75,000	100,000	125,000	350,000
Project development	120,000	200,000	300,000	220,000	840,000
JV participation	25,000	25,000	50,000	500,000	600,000
Admin	500,000	1,000,000	1,000,000	750,000	3,250,000
Total	1,375,000	2,160,000	2,615,000	2,650,000	8,800,000

Once the \$8.8 million of funds has been transferred from Arafura to NuPower pursuant to the Asset Sale and Subscription Agreement, NuPower will have enough working capital to carry out the objectives stated in Table 2 above.

3.4 Directors and Company Secretary of NuPower

NuPower will be governed by its own Board of Directors, independent from Arafura's Board of Directors.

The Board of Directors of NuPower is:

1. Mr Irvin (Mick) Muir (Chairman);
2. Mr Ian Kowalick (Director); and
3. Mr Dennis O'Neill (Director).

Mr Gavin Lockyer is the Company Secretary.

3.5 Management of NuPower

Mr Dennis O'Neill has been appointed as the Chief Executive Officer of NuPower and will assume the responsibilities of Managing Director following the Demerger.

Mr O'Neill has a Bachelor of Science (Hons) degree in Chemistry and brings over 36 years of experience in the mining and infrastructure sectors to the role. He has most recently been Chief Executive Officer of the Australian Council for Infrastructure Development, a peak industry body since 1995, and before that, he held technical, policy (including nuclear issues), commercial, representational and management roles in the minerals industry and in Government. He has experience in Australia, Africa, South-East Asia, USA and the Pacific.

3.6 Operation of NuPower

NuPower will source key operational services in technical and administration areas from Arafura under a services agreement entered into on arm's length terms.

4 Demerger Assets to be Transferred from Arafura to NuPower

The Demerger Assets comprise three categories:

1. exploration licences to be transferred to NuPower;
2. exploration licences to be transferred to NuPower but Arafura retains rights to minerals other than uranium; and
3. exploration licences to be retained by Arafura but in respect of which NuPower will be granted the rights to uranium.

If Arafura Shareholder and regulatory approvals are obtained for the Demerger, then these assets will be transferred by Arafura to NuPower under the terms of the Asset Sale and Subscription Agreement.

If the approvals are not obtained, these assets will continue to be evaluated by Arafura using the funds raised under the Rights Issue.

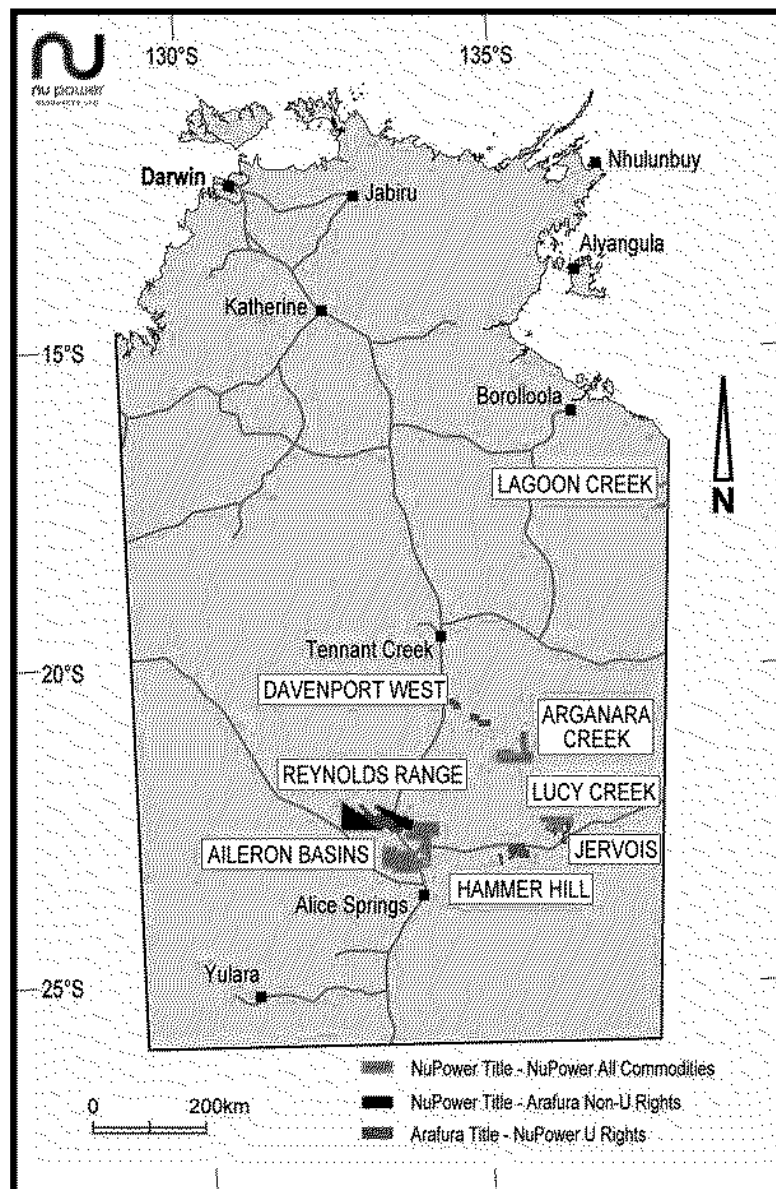
This section 4 sets out the Demerger Assets which Arafura currently owns and which Arafura proposes to transfer to NuPower under the Proposed Demerger.

1. 100% INTEREST/TENEMENT TO BE TRANSFERRED TO NUPOWER				
<u>PROJECT NAME</u>	<u>HELD BY</u>	<u>JV INTEREST</u>	<u>TITLE TYPE</u>	<u>NUMBER</u>
LAGOON CREEK	ARAFURA	LARAMIDE	Exploration Licence	23573
LUCY CREEK	ARAFURA		Exploration Licence	24716
	ARAFURA		Exploration Licence	24724
	ARAFURA		Exploration Licence	24726*
AILERON BASINS	ARAFURA		Exploration Licence	24955
	ARAFURA		Exploration Licence	24956
	ARAFURA		Exploration Licence	25325*
2. TENEMENT TO BE TRANSFERRED TO NUPOWER – NON-URANIUM INTEREST RETAINED BY ARAFURA				
<u>PROJECT NAME</u>	<u>HELD BY</u>	<u>JV INTEREST</u>	<u>TITLE TYPE</u>	<u>NUMBER</u>
AILERON BASINS	ARAFURA		Exploration Licence	24548
	ARAFURA		Exploration Licence	24741
3. TENEMENT TO BE RETAINED BY ARAFURA - URANIUM RIGHTS TO NUPOWER				
<u>PROJECT NAME</u>	<u>HELD BY</u>	<u>JV INTEREST</u>	<u>TITLE TYPE</u>	<u>NUMBER</u>
REYNOLDS RANGE	ARAFURA		Substitute Exploration Licence	23671 (excluding Nolan's Bore Exclusion Zone)
	ARAFURA		Exploration Licence	23571
HAMMER HILL	ARAFURA	MITHRIL	Exploration Licence	9725
	ARAFURA	MITHRIL	Exploration Licence	10136
JERVOIS	ARAFURA		Exploration Licence	10214
	ARAFURA		Exploration Licence	10215

DAVENPORT WEST	ARAFURA		Exploration Licence	9710
	ARAFURA		Exploration Licence	9745

*Current applications – to be transferred after grant

Figure 1 - Project Locations



Lagoon Creek

The Lagoon Creek uranium-gold prospect is located approximately 450 km east north east of Tennant Creek in the Northern Territory, near the Queensland border. Arafura currently owns 100% of the Lagoon Creek project and has a joint venture with Toronto-listed Laramide Resources Limited (“**Laramide**”), under which Laramide may earn 60% equity with the expenditure of \$5.5 million on exploration over five years. Laramide currently has a range of joint ventures in the Northern Territory and Queensland over uranium-prospective ground and is focused on defining resources in the Lagoon Creek and Westmoreland District. Laramide controls the tenement that contains the Westmoreland uranium deposit in Queensland, previously explored by Rio Tinto. Arafura’s Lagoon Creek tenement is 25 kilometres along strike from the Westmoreland deposit.

Significant aspects of the project are:

- Unconformity uranium mineralisation present;
- 25 km along strike from the Westmoreland deposit; and
- Radiometric anomalies backed up by rock chip samples containing uranium.

Geology

The host rocks and geological structures in the Lagoon Creek area are similar to those in the adjoining Westmoreland deposits, which are reported to host over 20,000 tonnes of contained U₃O₈. Uranium grades of 0.12%-2.4% (approximately 2.4 lb/ton – 48 lb/ton) U₃O₈ associated with gold grades of 6.8 g/T have been found during previous exploratory drilling along Westmoreland fault. Known drill intercepts range from 1 to 20 metres in width from 20 metres below the surface.

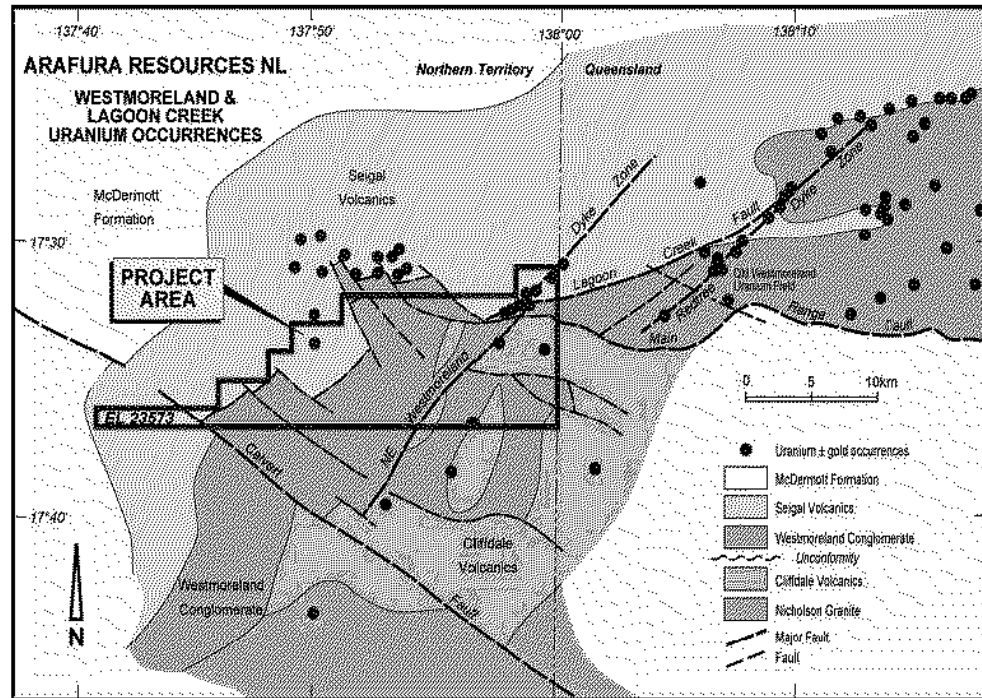
Airborne geophysical exploration on Arafura’s Lagoon Creek tenement (EL23573) has identified strong uranium anomalies. The significant results of the survey are:

- Radiometric anomalies identified the presence of uranium mineralisation;
- Discovery of two new zones;
- All anomalies are located in favourable basement rocks, unconformity relationships and associated structural features; and
- The survey clearly detected all previously known mineralisation.

Unconformity Targets

Laramide Resources commenced drilling in the north east sector of the Lagoon Creek tenement in October 2006. Assay results are expected in early 2007.

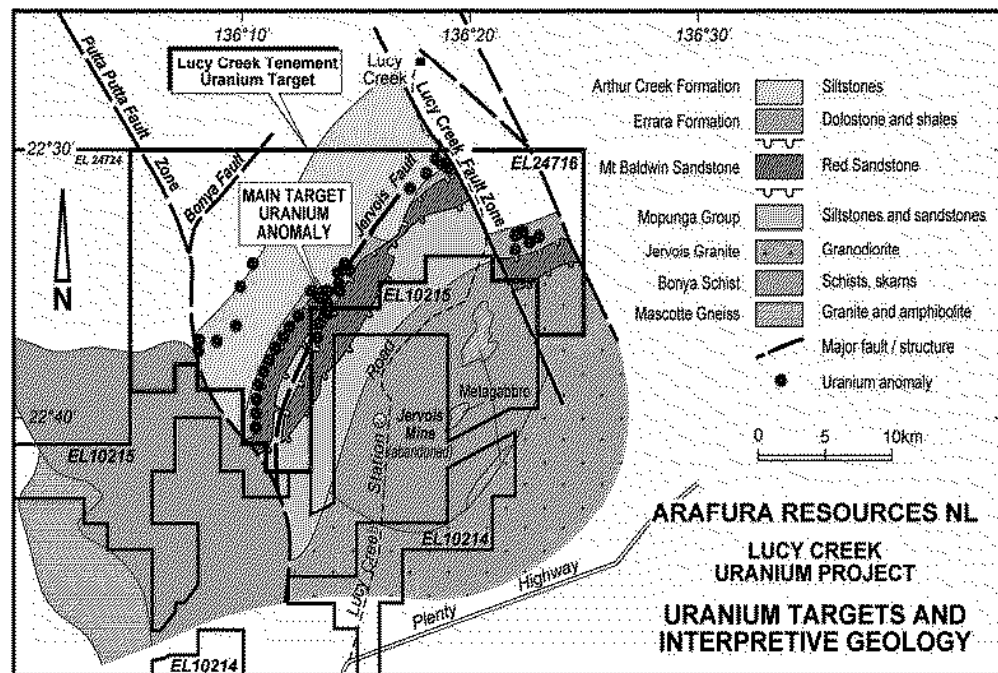
Figure 2 – Specific Targets for ongoing drilling



Lucy Creek

The Lucy Creek tenement (EL24716) is located within the Northern Territory approximately 250 kilometres east north east of Alice Springs. Airborne geophysical exploration has identified a discrete and strong uranium radiometric anomaly extending over a strike length of 6.5 kilometres and a width of 300 to 1,200 metres. Uranium grades of 1.25 lb/ton U_3O_8 have been returned in rock chip sampling in selected locations, with surface targets overlying unconformity and structural features. The area has not been explored before, with the exception of a limited number of rock chip samples taken by Arafura from the project area.

Figure 3 – Geology



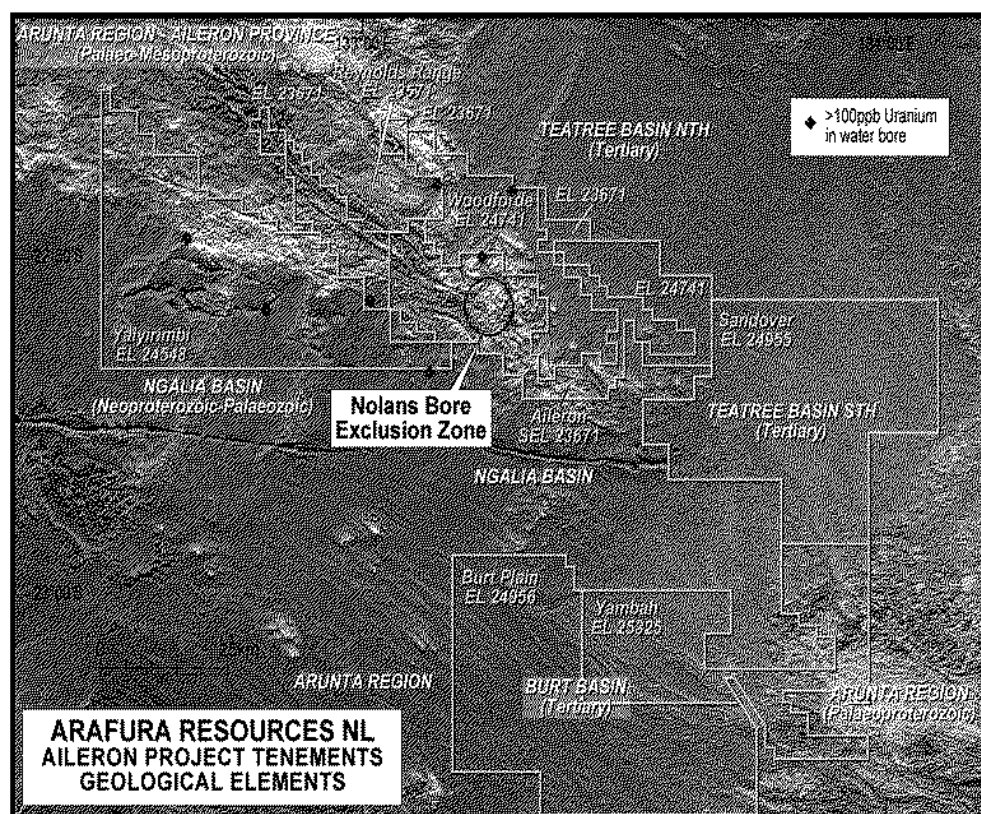
Aileron Basins

The Yalyirimbi, Burt Plain, Sandover and Woodforde River projects are located north of Alice Springs around the Reynolds Range district approximately 130 kilometres north of Alice Springs. These five tenements, covering 9,000 km² and called Aileron Basins, also form part of extensive holdings around the Nolans Bore project.

The tenements cover extensive accumulations of tertiary aged sediments that are 10 to 300 metres thick. These sedimentary basins have accumulated from the erosion of basement rocks some of which contain elevated values of uranium, as well as the erosion of the Nolans Bore project that contains uranium values up to 1.1lb/ton U₃O₈.

An assessment of water bores in the district also identified elevated values of uranium in water and the potential for the deposition of uranium in geochemical traps called "roll front mineralisation". Some of these basins also contain extensive layers of lignite, a carbon rich material that is a favoured site for the deposition of uranium mineralisation.

Figure 4 - Uranium Source to Potential Deposit



Sandstone and Roll Front Potential

Arafura is currently compiling all relevant information on these basins to form the basis for an exploration program.

Other Project Areas

NuPower will also acquire exploration rights covering Davenport West (U_3O_8 only to NuPower), Arganara Creek (all minerals to NuPower), Jervois (U_3O_8 only to NuPower) and Hammer Hill (U_3O_8 only to NuPower), on which little detailed exploration has been undertaken.

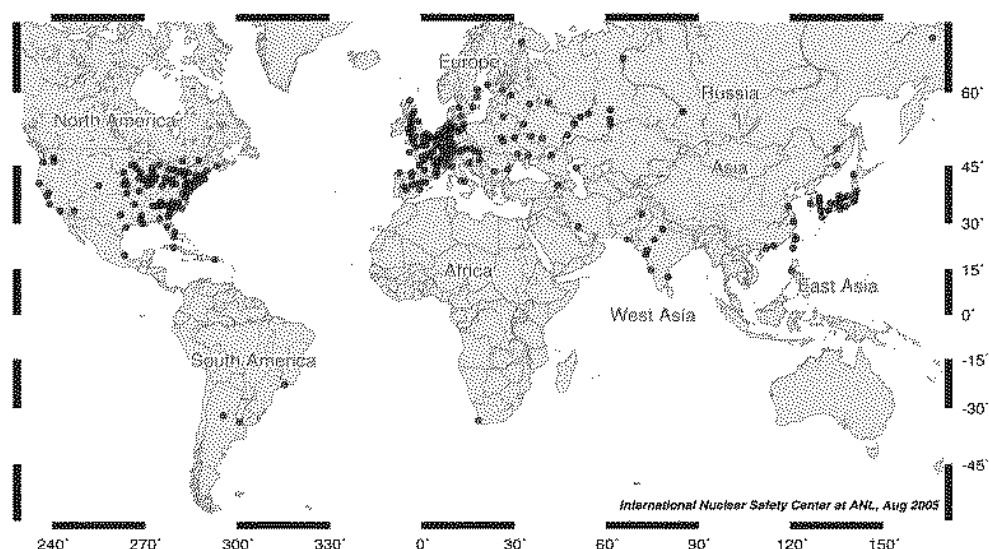
5 General Information about the Uranium Industry

5.1 Uranium Market Outlook

The price of uranium is driven by a number of factors. The key factors are the rising expectations for nuclear power, the lack of new mine development and the decline in availability of secondary sources.

World electricity use is expected to continue growing over the next several decades to meet the needs of an increasing population and economic growth. The International Atomic Energy Agency reported in September 2006 that there were 442 nuclear reactors in operation in the world across 31 countries and 28 reactors under construction.

Figure 5 – Location of Nuclear Reactors in Operation in the World



The price for U_3O_8 has increased to US\$72/lb as at 18 December 2006 from US\$10/lb in early 2003.

Australia has the world's largest known global uranium resource recoverable at less than US\$40/kg or US\$15/lb. This amounts to approximately 40% of world resources in this category.

In recent years, there has been a growing focus in many countries on securing future energy supplies to underpin general economic development. This focus has also included a renewed interest in nuclear energy as a more secure source of electricity production that is seen as beneficial in meeting greenhouse gas reduction targets. This perspective could contribute to even greater projected growth in uranium demand over the long-term.

Increased fossil fuel demand and prices along with supply uncertainty have triggered increased interest in uranium as a power source and has pushed up uranium prices. According to the Australian Bureau of Agricultural and Resource Economics, the dwindling supply of global uranium stocks and increasing concerns over the future supply of secondary sources of uranium are the major factors behind the substantial increase in the uranium price. Currently, global uranium stocks are expected to decline in the short term as a consequence of lower mine production, largely in Australia and Canada, then increase as new mine production comes on stream.

Due to a collapse in uranium prices in the early 1980's, there has been little uranium exploration in Australia for the past two decades. Most of Australia's major uranium resources are found in a small number of major deposits. The majority of these deposits were discovered prior to 1980.

Due to the lack of detailed exploration conducted in many regions showing similar characteristics to these major deposits, Arafura considers that the uranium projects as detailed in Section 4 above, have significant prospectivity and warrant further exploration.

5.2 Legislative Considerations

In 1996, the current Commonwealth Government abolished the Australian Labor Party ("ALP") "no-new mines" policy that limited uranium mining to the three mines existing at the time. Since then, the Commonwealth Government has sought to develop and grow Australia's uranium industry by allowing mining and export of uranium under strict provisions to safeguard the environment and prevent the uranium from being used for weapons development. Further, the Commonwealth has legal control of uranium mining in the Northern Territory, while delegating aspects of its day to day administration to the Northern Territory Government.

Currently, the governments of Western Australia and Queensland hold a policy stance against the development of uranium mines. The South Australian Government officially does not permit the development of new mines, however, recently the Honeymoon mine was approved. The leader of the Federal Opposition (ALP) indicated that he would seek a change in the "no new mines" uranium policy at the ALP's 2007 National Conference.

Even if the policy is changed at a national level by the ALP, it will be up to individual ALP governed states and territories to implement the new policy in their jurisdictions, something that may take longer to achieve.

6 Effect of the Demerger on Arafura

6.1 Principal effect of the Proposed Demerger

The principal effect of the Proposed Demerger on Arafura will be that:

- (a) cash reserves of Arafura will decrease by approximately \$8.8 million from \$18.6 million to \$9.8 million;
- (b) non-current assets will increase by approximately \$0.7 million from \$4.3 million to \$5.0 million being the net investment in NuPower less the book value of the Demerger Assets;
- (c) Arafura will acquire NuPower Shares, and then distribute 90% of those Shares to Eligible Demerger Shareholders;
- (d) Arafura's share capital will reduce by the dollar amount of the return of capital; and
- (e) due to the reduction in value of Arafura Options, there will be an associated accounting adjustment for revaluation of \$208,183.

6.2 Impact of the Proposed Demerger on Arafura's capital structure

At the date of this Prospectus, Arafura has 118,484,824 Arafura Shares on issue.

Arafura has 21,906,159 Arafura Options on issue which have not been exercised. The details of Arafura Options on issue are:

Amount	ASX Quotation	Expiry	Current Exercise Price
200,000	Unquoted	30/6/2009	\$0.34
750,000	Unquoted	30/7/2009	\$0.40
750,000	Unquoted	30/6/2009	\$0.45

3,000,000	Unquoted	30/6/2008	\$0.20
17,206,159	ASX Quoted	30/6/2008	\$0.20

The pro-forma capital structure of Arafura following the Demerger is set out below:

Arafura Issued Capital	Number
Arafura Shares before the Demerger	118,484,824
New Arafura Shares to be issued under the Demerger	Nil
Total Arafura Shares on issue following the Demerger	118,484,824
 Arafura Options on issue	 21,906,159

6.3 Pro-forma Balance Sheet

A pro-forma Balance Sheet for Arafura has been prepared on the basis that there have been no material movements in assets and liabilities of Arafura between 30 June 2006 and the completion of the Proposed Demerger, except:

1. the Rights Issue of 33,736,726 New Arafura Shares at \$0.36 each raised approximately \$12.1 million;
2. expenses of the Rights Issue and Demerger of approximately \$1,500,000 to be offset against contributed equity; and
3. transfer of the Demerger Assets from Arafura to NuPower.

Arafura Balance Sheet

	Arafura Audited	Arafura Unaudited Pro- forma
	30-Jun-06	Post Demerger
	\$	\$
Current assets		
Cash and cash equivalents	6,277,856	9,811,824
Trade and other receivables	104,820	104,820
Total current assets	6,382,676	9,916,644
Non-current assets		
Other financial assets	3	901,394
Available-for-sale financial assets	375,000	375,000
Property, plant and equipment	187,582	187,582
Exploration and evaluation costs carried forward	3,781,198	3,567,290
Total non-current assets	4,343,783	5,031,266
Total assets	10,726,459	14,947,910
Current liabilities		
Interest bearing liability	36,456	36,456
Trade and other payables	633,967	633,967
Provisions	28,376	28,376
Total current liabilities	698,799	698,799
Non-current liabilities		
Interest bearing liability	60,265	60,265
Deferred Tax Liability	0	0
Total non-current liabilities	60,265	60,265
Total liabilities	759,064	759,064
Net assets	9,967,395	14,188,846
Equity		
Contributed equity	12,381,827	16,603,278
Reserves	494,918	698,101
Accumulated losses	(2,909,350)	(3,112,533)
Total equity	9,967,395	14,188,846

Notes to Accounts:

Note 1. Actual and proposed transaction to arrive at proforma balance sheet

The proforma balance sheet reflects the 30 June 2006 balance sheet adjusted to reflect the actual and proposed transactions pursuant to the Demerger.

The transactions reflected in the proforma are as follows:

- (a) Proceeds of \$12,145,221 from the rights issue to eligible shareholders;
- (b) Transfer cash of \$8,800,000 and exploration and evaluation assets with a book value of \$213,908 to NuPower for 43,883,270 ordinary shares in NuPower;
- (c) In-specie distribution of 90% of the ordinary shares in NuPower to Eligible Demerger Shareholders;
- (d) Payment of rights issue and Demerger costs of approximately \$1,500,000;
- (e) Proceeds of \$1,688,747 received on the exercise of share options; and
- (f) Reset of exercise price of share options issued at 30 June 2006 resulting in an increase of \$203,183 in the share-based payment reserve and accumulated losses.

Note 2. Cash and cash equivalents

	Arafura audited 30 June 2006 \$	Arafura proforma 30 June 2006 \$
Cash at bank and in hand	6,277,856	9,811,824
Proforma adjustments		
Audited balance at 30 June 2006		6,277,856
Transfer of cash to NuPower Resources Ltd		(8,800,000)
Payment of rights issue and demerger costs		(1,500,000)
Proceeds received on exercise of options		1,688,747
Proceeds from rights issue		12,145,221
		<u>9,811,824</u>

Note 3. Other financial assets

	Arafura audited 30 June 2006 \$	Arafura proforma 30 June 2006 \$
Shares in subsidiary	3	901,394
Proforma adjustments		
Audited balance		3
Shares received on transfer of assets		9,013,908
In-specie distribution of 90% of the investment		(8,112,517)
		<u>901,394</u>

Note 4. Exploration and evaluation costs carried forward

	Arafura audited 30 June 2006	Arafura proforma 30 June 2006
Exploration and evaluation costs carried forward	3,781,198	3,567,290
Proforma adjustment		
Audited balance		3,781,198
Book value of assets transferred to NuPower Resources Ltd		(213,908)
		<u>3,567,290</u>

Note 5. Contributed equity

	Arafura audited 30 June 2006	Arafura proforma 30 June 2006		
Fully paid ordinary shares	12,381,827	16,603,278		
<i>Movements in ordinary share capital</i>				
Date	Details	Number of shares	Issue price	\$
1/07/2005	Balance	50,547,508		5,065,795
2/09/2005	Options exercised	10,000	\$ 0.20	2,000
27/09/2005	Share issue	7,574,999	\$ 0.24	1,818,000
20/03/2006	Options exercised	100,752	\$ 0.20	20,150
7/04/2006	Options exercised	5,000	\$ 0.20	1,000
28/04/2006	Shareholder purchase plan	17,431,750	\$ 0.32	5,578,160
19/05/2006	Options exercised	39,352	\$ 0.20	7,870
6/06/2006	Options exercised	70,000	\$ 0.20	14,000
	Less: capital raising costs to 30 June 2006			(125,149)
30/06/2006	Audited balance			12,381,827
<i>Proforma adjustments</i>				
	Issue of shares pursuant to Prospectus (prior to this Prospectus)	33,736,726	\$ 0.36	12,145,221
	Less: rights issue and demerger costs			(1,500,000)
	In-specie distribution of 90% of investment in NuPower Resources Ltd			(8,112,517)
	Options exercised	50,000	\$ 0.34	17,000
	Options exercised	8,358,737	\$ 0.20	1,671,747
				16,603,278

Note 6. Reserves

	Arafura audited 30 June 2006 \$	Arafura proforma 30 June 2006 \$
Available-for-sale investment revaluation reserve	125,000	125,000
Share-based payment reserve	369,918	573,101
	<u>494,918</u>	<u>698,101</u>

Proforma adjustments:

Audited balance	494,918
Reset of exercise price of share options issued at 30 June 2006	203,183
	<u>698,101</u>

Note 7. Accumulated losses

	Arafura audited 30 June 2006 \$	Arafura proforma 30 June 2006 \$
Accumulated losses	2,909,350	3,112,533

Proforma adjustments:

Audited balance	2,909,350
Reset of exercise price of share options issued at 30 June 2006	203,183
	<u>3,112,533</u>

7 Effect of Demerger on NuPower**7.1 Principal effect**

The principal effect of the Demerger on NuPower will be that:

- (a) cash reserves of NuPower will increase by \$8.8 million from \$2 to \$8.8 million;
- (b) non-current assets will increase by \$7.3 million from nil to \$7.3 million being the fair value of the uranium assets transferred from Arafura to NuPower;
- (c) the number of fully paid NuPower Shares on issue will increase from 2 to 43,883,270;

- (d) the number of NuPower Options on issue will increase from nil to 7,302,053; and
- (e) contributed equity will increase by \$13.9 million.

7.2 Impact on capital structure

At the date of this Prospectus, NuPower has two shares on issue. Assuming no NuPower Shares are issued prior to the Demerger Record Date, the NuPower Shares issued pursuant to the Asset Sale and Subscription Agreement will be 43,883,268 or 99.99% of the expanded issued capital, and the total NuPower Shares on issue after the transaction will be 43,883,270.

At the date of this Prospectus, NuPower has nil NuPower Options on issue. Assuming no NuPower Options are issued prior to the Demerger Record Date, the issue of 7,302,053 NuPower Options pursuant to this Prospectus will result in total NuPower Options on issue after the transaction to be 7,302,053.

The pro-forma capital structure of NuPower following the Demerger is set out below:

NuPower Issued Capital	Number
Existing NuPower Shares	2
NuPower Shares to be issued pursuant to the Asset Sale and Subscription Agreement	43,883,268
Total NuPower Shares on issue following the Demerger	43,883,270
 NuPower Options on issue following the Demerger	 7,302,053

7.3 Pro-forma Balance Sheet

A pro-forma Balance Sheet for NuPower has been prepared on the basis that there have been no material movements in assets and liabilities of NuPower between NuPower's incorporation on 14 August 2006 and the completion of the demerger Demerger, except:

- (a) receipt of \$8.8 million cash from Arafura;
- (b) receipt of uranium assets of fair value of \$7.3 million from Arafura;
- (c) issue of 43,883,268 fully paid NuPower Shares; and
- (d) issue of 7,302,053 NuPower Options.

NuPower Balance Sheet

	NuPower Unaudited Pro-Forma Pre Demerger \$	NuPower Unaudited Pro-Forma Post Demerger \$
Current assets		
Cash and cash equivalents	2	8,800,000
Trade and other receivables	0	0
Total current assets	2	8,800,000

Non-current assets		
Other financial assets	0	0
Available-for-sale financial assets	0	0
Property, plant and equipment	0	0
Exploration and evaluation costs carried forward	0	7,310,000
Total non-current assets	0	7,310,000
Total assets		
	2	16,110,000
Current liabilities		
Interest bearing liability	0	0
Trade and other payables	0	0
Provisions	0	0
Total current liabilities	0	0
Non-current liabilities		
Interest bearing liability	0	0
Deferred Tax Liability	0	2,193,000
Total non-current liabilities	0	2,193,000
Total liabilities		
	0	2,193,000
Net assets		
	2	13,917,000
Equity		
Contributed equity	2	13,917,000
Reserves	0	876,830
Accumulated losses	0	(876,830)
Total equity	2	13,917,000

Notes to Accounts:

Note 1. Actual and proposed transaction to arrive at proforma balance sheet

The proforma balance sheet reflects the 30 June 2006 balance sheet adjusted to reflect the actual and proposed transactions pursuant to the Demerger.

The transactions reflected in the proforma are as follows:

- (a) Transfer cash of \$8,800,000 and exploration and evaluation assets with a fair value of \$7,310,000 from Arafura for 43,883,268 ordinary shares in NuPower;
- (b) Recognition of a deferred tax liability of \$2,193,000, being 30% of the fair value of exploration and evaluation assets transferred from Arafura; and
- (c) Recognition of the share-based payment expense of \$876,830 relating to the issue of 4,566,666 unquoted share options.

Note 2. Cash and cash equivalents

	NuPower unaudited pre-demerger \$	NuPower proforma post-demerger \$
Cash and cash equivalents	-	8,800,000
Proforma adjustments		
Unaudited balance at 30 June 2006		-
Cash transferred from Arafura Resources NL		8,800,000
		<u>8,800,000</u>

Note 3. Exploration and evaluation cost carried forward

	NuPower unaudited pre-demerger \$	NuPower unaudited post-demerger \$
Exploration and evaluation costs carried forward	-	7,310,000
Proforma adjustments		
Unaudited balance at 30 June 2006		-
Fair value of assets transferred from Arafura Resources NL		7,310,000
		<u>7,310,000</u>

Note 4. Deferred tax liability

	NuPower unaudited pre-demerger \$	NuPower unaudited post-demerger \$
Deferred tax liability	-	2,193,000
Proforma adjustments		
Unaudited balance at 30 June 2006		-
Deferred tax liability of 30% of the fair value of exploration and evaluation assets transferred from Arafura Resources NL		2,193,000
		<u>2,193,000</u>

Note 5. Contributed equity

		NuPower unaudited pre-demerger \$	NuPower unaudited post-demerger \$
Fully paid ordinary shares		-	13,917,000
Proforma adjustments			
Date	Details	Number of share	Issue price \$
14/08/2006	Balance		
	Shares issued to Arafura Resources NL on completion of the Prospectus	43,883,268	\$ 0.32
			13,917,000

Note 6. Reserves

	NuPower unaudited pre-demerger \$	NuPower audited post-demerger \$
Share-based payment reserve	-	876,830
Proforma adjustments		
Unaudited balance pre-demerger		-
Issue of 4,566,666 share options		876,830
		876,830

Note 7. Accumulated losses

	NuPower unaudited pre-demerger \$	NuPower unaudited post-demerger \$
Accumulated losses	-	876,830
Proforma adjustments:		
Unaudited balance pre-demerger		-
Share-based payment expense (see note 7)		876,830
		876,830

8 Risk Factors

If the Demerger proceeds then NuPower's activities will be subject to a number of risks which may impact respective future financial performance and the market price at which NuPower Shares and NuPower Options trade. Some of these risks can be mitigated by the use of safeguards and appropriate controls. However, others are outside NuPower's control and cannot be mitigated. Therefore, investors who acquire NuPower securities may be exposed to a number of risks. Broadly, these risks can be classified as risks general to investing in the share market and risks specific to an investment in NuPower's Shares and NuPower's underlying business.

This Section sets out the identified major risks associated with investing in NuPower securities. This list is not exhaustive and investors should read this Prospectus in its entirety before making a decision. Investors should also have regard to their own investment objectives and financial circumstances, and should consider seeking appropriate independent investment advice.

If the Demerger does not proceed, then Arafura will retain the Demerger Assets itself. Therefore this Section also sets out the identified major risks associated with Arafura retaining the Demerger Assets instead of those assets being held by NuPower.

8.1 Risks relating to Uranium Exploration and Mining

(a) Approval process for uranium mining

Uranium mining is subject to regulation by State, Northern Territory and Federal governments in relation to exploration, development, production, export, taxes, royalties, labour standards, occupational health, waste disposal, protection and rehabilitation of the environment, mine reclamation, mine safety, toxic and radiological substances and other matters. The cost of compliance with such laws and regulations may ultimately increase the cost of exploring, drilling, developing, constructing, operating and closing mines and other production facilities. These approvals are more rigorous than for mining of other mineral commodities. There is a risk if economic deposits of uranium are discovered, the government approvals and licences required to mine and export the deposit may not be granted, or may be significantly delayed or make mining of the deposit uneconomic.

By virtue of the Atomic Energy Act (1953) and the Northern Territory (Self Government Act) (1978) (Cth), uranium in the Territory is the property of the Commonwealth.

The Northern Territory (Self Government) Act 1978 (Cth) granted executive powers to the Northern Territory Minister for Mines and Energy ("**Minister**") with respect to mining and minerals, but not including the mining of uranium unless pursuant to an agreement or arrangement between the Northern Territory and the Commonwealth. By an agreement executed by the Commonwealth and the Northern Territory on 22 March 1979, the Northern Territory was given the power to grant exploration licences to explore for uranium. Any other dealing with tenements involving uranium, that is, applications for the grant of an exploration retention licence or a mineral lease or any renewal application, transfer or other dealing with such

tenure must be referred by the Minister to the Commonwealth under the Mining Act (NT).

(b) **Competition from alternative energy and public perception**

Nuclear energy is in direct competition with other sources of energy which include gas, coal and hydro-electricity. Furthermore, any potential growth of the nuclear power industry (with any attendant increase in the demand for uranium) beyond its current level will depend upon continued and increased acceptance of nuclear technology as a means of generating electricity.

The nuclear industry in Australia is currently subject to negative public opinion due to political, technological and environmental factors. This may have an adverse impact on the demand for uranium and increase the regulation of uranium mining.

One of the arguments in favour of nuclear energy is its lower emissions of carbon dioxide per unit of power generated compared to coal and gas. Alternative energy systems such as wind or solar also have very low levels of carbon emissions, however to date these sources have not been deemed economic for large scale electrical power generation. Technology changes may occur that make alternative energy systems more efficient and reliable.

8.2 Risks associated with Transferring the Demerger Assets from Arafura to NuPower

The transfer of the Demerger Assets under the Asset Sale and Subscription Agreement is subject to the approval of the Northern Territory Minister for Mines and Energy. If approval is not granted then Arafura may not be able to transfer all or part of the Demerger Assets to NuPower.

8.3 Risks associated with Single Focus Business

NuPower will be an exploration company focussing on uranium, whereas Arafura is an exploration company focussing on a wider range of commodities, namely rare earths, gold, iron, nickel, vanadium, phosphate and prior to the Demerger, uranium.

Investing in a company with a single commodity focus may involve a higher degree of risk than investing in a company with a focus on several commodities.

8.4 Risks specific to Mining in General

(a) **Exploration and Mining risk**

Mineral exploration is a high-risk undertaking.

There can be no assurance that mineral exploration will result in the discovery of an economic resource. Even if an apparently viable resource is identified, there is no guarantee that it can be economically exploited.

The business of exploration, project development and mining contains risks and depends on successful exploration and/or acquisition of resources, design and construction of efficient production and processing facilities. In particular, exploration is a speculative endeavour and certain circumstances, cost over-runs and other unforeseen events can hinder mining operations.

(b) **Operational risks**

The operations of NuPower may be disrupted by a variety of risks and hazards which are beyond the control of NuPower, including environmental hazards, industrial accidents, technical failures, regulatory changes, labour disputes, unusual or unexpected rock formations, geotechnical rock failures, flooding and extended interruptions due to inclement or hazardous weather conditions, fire, explosions and other incidents.

(c) **Title and Native title**

Interests in tenements in Australia are governed by the respective State and Northern Territory legislation and are evidenced by the granting of licences or leases. Each licence or lease is for a specific term and carries with it annual expenditure and reporting commitments, as well as other conditions requiring compliance. Consequently, NuPower could lose title to, or its interests in, tenements if licence conditions are not met or if insufficient funds are available to meet expenditure commitments.

Both the Native Title Act 1993 (Cth), related State and Northern Territory Native Title Legislation and Aboriginal land rights and Aboriginal heritage legislation may affect NuPower's ability to gain access to prospective exploration areas or obtain production titles.

Compensatory obligations may be necessary in settling native title claims if lodged over any tenements acquired by NuPower. The existence of outstanding registered native title claims means that the grant of a tenement in respect of a particular tenement application may be slightly delayed or thwarted pending resolution of future act procedures in the Native Title Act. The level of impact of these matters will depend, in part, on the location and status of the tenements acquired by NuPower. At this stage, it is not possible to quantify the impact (if any) which these developments may have on the operations of NuPower.

(d) **Environmental Risk**

NuPower's activities will be subject to State, Northern Territory and Federal laws and regulation regarding environmental hazards and discharge of hazardous waste and materials and prescribed materials under the Atomic Energy Act (1953) (Cth). NuPower is committed to conducting its activities in an environmentally responsible manner, in accordance with applicable laws and regulations but the potential for liability is ever present.

The cost and complexity of complying with the applicable environmental laws and regulations may prevent NuPower from being able to develop potentially economically viable mineral deposits.

(e) **Occupational health and safety risk**

NuPower is committed to providing a healthy and safe environment for its personnel, contractors and visitors. NuPower provides appropriate instructions, equipment, preventative measures, first aid information and training to all stakeholders through its Occupational Health and Safety Management Systems.

(f) **Other factors**

In addition to the risks outlined above, NuPower's operating performance and profitability is sensitive to a number of other specific factors. These include, but are not limited to:

- the discovery and/or acquisition of economically recoverable mineral reserves;
- access to adequate capital for project development;
- design and construction of efficient mining and processing facilities within capital expenditure budgets;
- obtaining continued access to processing facilities on favourable terms and conditions;
- the terms and interpretation of current and future contractual arrangements;
- obtaining consents and approvals necessary for the conduct of exploration and mining;
- favourable weather conditions for exploration and mining activities; and
- access to competent operational management and prudent financial administration, including the availability and reliability of appropriately qualified, skilled and experienced employees, contractors and consultants.

8.5 General investment and economic risks

A number of factors outside NuPower's control may significantly impact NuPower, its performance and the price of NuPower Shares and NuPower Options. These factors include:

(a) Investment and Economic Risk

Economic factors both in Australia and internationally beyond the control of NuPower, such as changes in commodity prices, interest rates, inflation, exchange rates, taxation, changes in government policy and legislation, may negatively impact on the operational performance of NuPower.

NuPower's revenues, expenses and cash flows could be negatively affected by any of these factors, which in turn may affect the price of NuPower Shares or NuPower Options.

No assurances can be made that NuPower's performance will not be adversely affected by any such market fluctuations or factors. None of NuPower or its Directors or any other person guarantees the performance of NuPower or the market price at which its shares trade.

The NuPower Shares and NuPower Quoted Options are to be quoted on ASX where their price may rise or fall.

The NuPower Shares carry no guarantee in respect of profitability, dividends, return of capital or the price at which they may trade on ASX. The value of the NuPower Shares and NuPower Quoted Options will be determined by the share market and will be subject to a range of factors beyond the control of NuPower and its Directors including the demand and availability of NuPower Shares.

There can be no guarantee that an active market in NuPower Shares or NuPower Options will develop or the market price of the securities will not decline. An investment in NuPower Shares or NuPower Options should be considered speculative.

(b) **Government policy**

NuPower's capacity to explore and mine, as well as industry profitability generally, can be affected by changes in government policy which may be beyond the control of NuPower.

(c) **Commodity price risk**

The demand for and price of commodities is highly dependant on a variety of factors, including, the level of forward selling by producers, costs of production, general economic conditions, inflation levels, interest rates and exchange rates.

These factors may adversely impact NuPower's ability to fund operations, exploration, evaluation and development activities.

(d) **Future capital needs and additional funding**

The future capital requirements of NuPower will depend on many factors. There can be no guarantee that NuPower will be able to raise additional capital to meet future funding requirements.

Any inability to obtain additional finance, if required, would have a material adverse effect on NuPower's business and its financial condition and performance.

(e) **Taxation risk**

Variations in the taxation laws of Australia could impact NuPower's financial performance and interpretation of taxation law could change, leading to a change in taxation treatment of investments or activities.

(f) **Changes in regulatory environment**

Changes to laws and regulations or accounting standards which apply to NuPower from time to time could adversely impact the operating and financial performance and cash flows of NuPower.

9 Additional Information relating to Arafura

9.1 Summary of Material Agreements

(a) **Asset Sale and Subscription Agreement between Arafura and NuPower**

The asset sale and subscription agreement (ASSA), dated 12 January 2007, is between:

- Arafura Resources NL (**Arafura**); and
- NuPower Resources Limited (**NuPower**).

Under the ASSA, Arafura agrees:

(a) to transfer to NuPower:

- (1) \$8.8 million dollars (**Cash**); and
- (2) the following tenements and tenement applications: EL23573, EL24716, EL24724, EL24726, EL24955, EL24956, EL24548, EL24741 (**Tenements**).

- (b) appoint NuPower as its agent to explore for uranium on SEL 23671, EL23571, EL9725, EL10136, EL10214, EL10215, EL9710 and EL9745 (**Uranium Rights**).

The transfer of the Tenements is subject to Ministerial approval under the Mining Act (NT).

In consideration for the transfer of the Cash, Tenements and Uranium Rights, NuPower agrees to:

- (a) issue shares in NuPower (**Subscription Shares**) to Arafura;
- (b) to grant options (**Options**) to optionholders of Arafura as at the Demerger Record Date;
- (c) grant 3,000,000 NuPower Executive Options to Dennis O'Neill; and
- (d) appoint Arafura as agent for non uranium exploration on EL24548 and EL24741 (**Non Uranium Rights**).

Conditions precedent

The obligations of the parties under the agreement are subject to and conditional on:

- (a) the members of NuPower in general meeting approving by the appropriate majority the issue of the Subscription Shares to Arafura for all purposes;
- (b) the members of Arafura in general meeting approving a reduction of capital in Arafura by way of an 'in specie' distribution of the Subscription Shares; and
- (c) the parties obtaining a letter from ASX that confirms that subject to satisfying conditions it will admit NuPower to the official list of the ASX.

In the event that the conditions are not satisfied by 28 February 2007, (or such later date as the parties agree), the agreement will be of no force and effect.

Other material terms and conditions

- (a) Completion under the ASSA is to occur within 10 days of satisfaction of the conditions precedent set out above.
- (b) To the extent that any of the Tenements are still applications as at the date of Completion under the ASSA, Arafura shall deliver to NuPower signed transfers and executed power of the attorney to do all things with regard to those applications.
- (c) NuPower shall apply for any necessary approvals of the Minister under the Mining Act 1980 (NT) and Arafura will use all reasonable endeavours to assist NuPower in obtaining the approvals.
- (d) NuPower undertakes to use the Cash to evaluate the Demerger Assets in accordance with the table set out in section 3.3 of this prospectus.
- (e) Subject to retaining 10% of the Subscription Shares, Arafura has agreed to distribute the Subscription Shares to its shareholders as at the Demerger Record Date using the ratio of 1 Subscription Share

for every 3 Arafura Shares held by a shareholder of Arafura on the Demerger Record Date.

- (f) The parties have established a framework to coordinate future uranium and non uranium exploration efforts, including access, expenditure and competing development proposals.

(b) Territory Iron Agreement

Description: Under this agreement between Arafura and Territory Iron Pty Ltd (**Territory**) effective 22 September 2003 (**Agreement**), Arafura grants Territory the right to prospect and explore for and the right to mine and retain, iron ore over the tenement area (comprising tenements AN389, EL10137, EL22269, EL22270 and ELA 23237 (**Tenements**)) in exchange for royalty payments.

Term and Termination: The initial term of the Agreement commenced on 22 September 2003 and runs for 10 years.

Compensation and Payment: Territory agrees to pay Arafura a royalty of \$1.30 per dry metric tonne of lumpy ore product and \$1.00 per dry metric tonne of fines ore product in consideration of the right to prospect and explore for and the right to mine and retain, iron ore over the Tenement Area.

The parties agree that if Territory discovers economic concentrations of gold or other minerals in or near an iron ore deposit, Territory will mine the gold and stockpile it for collection by Arafura in exchange for a fee plus 10% of the value of the gold or minerals produced.

Arafura has received two advance royalty payments under this agreement totalling \$750,000 which are to be set off against future royalties payable by Territory.

(c) Lagoon Creek Farm in

Description: Under the Letter Agreement for Farm-in and Joint Venture – EL23573 between Arafura and Laramide Resources Limited (**Laramide**) effective 21 May 2005, the parties agree on the terms on which Laramide may earn a 60% participating interest in a joint venture in relation to EL23573 (**Tenement**) located in the Lagoon Creek area in the Northern Territory.

Compensation and Payment: In order to earn a 50% participating interest Laramide must sole fund project expenditure to the extent of \$3 million by 21 May 2009 (**Initial Sole Funding Period**). Laramide may then earn a further 10% participating interest by sole funding further project expenditure to the extent of \$2.5 million by 21 May 2010.

Withdrawal: Once Laramide has funded minimum project expenditure of \$1 million it is entitled to withdraw from the joint venture by giving notice of its intention to do so.

Surrender, Assignment and Pre-emptive Rights: Each party must consent to any decision by the other party relating to the relinquishment of the whole or any part of the Tenement during the earning period and must give the non-surrendering party the option to purchase the surrendering party's interest in the Tenement and excise it from the joint venture.

Until Laramide earns a participating interest:

- (1) Arafura is entitled to assign its participating interest to an unrelated third party if the proposed assignee is a reputable and financially sound corporation; and
- (2) Laramide is entitled to assign its rights under the agreement with Arafura's consent to a reputable and financially sound corporation, if Arafura is given a 60-day pre-emptive right to match any offer Laramide receives.

Either party is entitled to assign its participating interest to:

- (1) a related body corporate for so long as the assignee remains a related body corporate; or
- (2) an unrelated third party if the non-assigning party is given a 60-day pre-emptive right to match any offer received.

Other Provisions: If Arafura holds a minority interest in the project at the time the management committee decides to develop a deposit on the Tenement, Arafura is entitled to elect within 90 days to convert its participating interest to either a 10% participating interest free carried for the commencement of production with expenditure repaid from its share of product, or a royalty of 3% of the value of uranium product mined and a 5% net smelter return royalty for minerals other than uranium.

(d) Hammer Hill Option Agreement

The Hammer Hill Option Agreement (**Hammer Hill Agreement**), effective 22 November 2005, is between Arafura Resources NL (**Arafura**) and Mithril Resources Ltd (**Mithril**).

Under the Hammer Hill Agreement, the parties agree on the terms and conditions on which Mithril will acquire the option to earn-in to a joint venture involving Exploration Licences 9725 and 10136 (**Tenements**) in the Hammer Hill project in the Northern Territory (**Option**).

On 14 July 2006, Arafura announced that Mithril had formally exercised the Option to enter into a Joint Venture Agreement to earn equity in the Hammer Hill Project.

The parties must now execute a formal joint venture agreement with the following key terms and conditions:

- (1) If Mithril spends \$2 million on exploration over 4 years following the execution of the joint venture agreement it will be entitled to earn a 51% interest in the Tenements provided it spends a minimum of \$250,000 each year from the date of execution;
- (2) Mithril can withdraw at any time without penalty;
- (3) If Mithril spends a further \$3 million over 2 years following the initial 4 year expenditure period it will be entitled to earn a further 19% interest in the Tenements;
- (4) If either party's interest is diluted to a level lower than 10%, it will automatically convert to a 1.5% net smelter return interest;
- (5) Mithril will be entitled to assign its interest in the Tenements and under the joint venture agreement; and
- (6) Arafura will retain exclusive rights to rare earth elements, phosphate, uranium and diamonds.

(e) Exploration Agreement and Deed of Covenant (2006)

This exploration agreement between Arafura and the Central Land Council (CLC) is dated 30 May 2006. Pursuant to this agreement, the traditional owners of the land the subject of EL9672, EL9701, EL9709, EL 9710, EL9725, EL 9745 EL10136, EL 22384, EL22783 SEL 23671, MCC950, MCC951, MCC952, MCC953, and AC74 ('the Exploration Tenure'), consent to the grant of the Exploration Tenure and will not challenge their validity by lodging an objection. In the event that an objection has already been lodged over any of the Exploration Tenure, the CLC agrees to withdraw the objection.

In return Arafura agrees to provide work programs to the CLC prior to the proposed beginning of each phase of exploration and at least once every calendar year with respect to all activities it proposes to undertake on the land. The CLC after receipt of the work program must then advise Arafura of any areas or exploration activities that will not be permitted due to the location of sacred sites or known sites of cultural significance and whether the CLC will be able to undertake sacred site protection procedures.

Arafura, as soon as practicable must also report to the CLC the location and details of any discoveries of commercially exploitable quantities of uranium it discovers during the course of undertaking its exploration activities.

Arafura agrees to make compensation payments to the CLC for distribution amongst the traditional landowners. The parties acknowledge and agree that native title is not extinguished by the grants of the Exploration Tenure or by this agreement. The parties respective rights and obligations pursuant to this agreement are not dependent upon or subject to and are not effected by any finding made or to be made by the National Native Title Tribunal, the Federal Court or any other judicial body regarding the existence of native title on the land or compensation for the loss or impairment of any native title on the land.

The term of the agreement is from the date of the agreement until the expiration or withdrawal of the last of the Exploration Tenure held by Arafura. Either party is provided with a right to immediately terminate the agreement where the other party has committed a serious default which has not been rectified within a period of thirty (30) days.

Arafura must provide written notice to the CLC if it proposes to assign the whole or any part of its interest in the exploration tenure. Arafura also agrees to require the assignee to execute a Deed of Assumption agreeing to be bound by the terms of the Agreement.

The balance of the provisions of this agreement are considered standard for an agreement of this type.

Under a Deed of Covenant between Arafura and the CLC dated 17 August 2006, the parties agree that the terms of the Exploration Agreement shall apply in respect of further exploration licences 23571, 24741, 24955 and 24956.

Arafura intends to transfer its interest in the Exploration Agreement to NuPower to the extent necessary to effect transfer of the Demerger Assets.

9.2 Related party transactions

Other than as disclosed elsewhere in this Prospectus, Arafura is not a party to any agreement that would be considered a related party transaction.

9.3 Litigation and material disputes

As at the date of this Prospectus, Arafura is not involved in any legal or administrative proceedings and the Directors are not aware of any claim or threatened claim against Arafura which may result in material legal proceedings.

Native Title claims have been made in respect of areas that include tenements controlled by Arafura. Arafura is unable to determine the likelihood of these claims being successful.

9.4 Interests of Arafura Directors and promoters

Other than as set out below or elsewhere in this Prospectus, no Director or promoter of Arafura (or entity in which they are a partner or director) has, or has had in the two years before the date of this Prospectus, any interest in:

- the formation or promotion of Arafura; or
- property acquired or proposed to be acquired by Arafura in connection with its formation,

and, other than as set out below or elsewhere in this Prospectus, no amounts have been paid or agreed to be paid and no value or other benefit has been given or agreed to be given to:

- any Director of Arafura to induce him to become or to qualify as a director of Arafura; or
- any Director or promoter of Arafura (or entity in which they are a partner or director) for services which he or she has provided in connection with the formation or promotion of Arafura.

The Directors and their related entities have the following interests in the Arafura Shares and the Arafura Options as at the date of this Prospectus.

Directors' interests include interests they have in Arafura Shares registered in the name of other persons. Option terms have previously been disclosed to ASX. Directors holding Arafura Shares will be entitled to participate in the Demerger on the same basis as other Eligible Demerger Shareholders.

Table 3: Arafura Directors' Interests

Arafura Director	Shares Held Directly or Indirectly	ASX Quoted Options Held Directly or Indirectly	Unquoted Options Held Directly or Indirectly
Peter Neville Walker	2,555,000	2,670,000	Nil
Alistair James Stephens	Nil	Nil	3,000,000
Irvin (Mick) Graham Muir	3,250,000	40,000	Nil
Ian John Kowalick	Nil	800,000	Nil

9.5 Waivers granted by ASX to Arafura in relation to Listing Rules

Arafura has obtained a waiver from the ASX in relation to the Listing Rules to enable the Demerger to be implemented in the manner proposed. ASX has granted Arafura a waiver from listing rule 7.22 to the extent necessary to permit Arafura to reduce the exercise price of Arafura's options on a pro rata basis reflecting the net asset positions of Arafura and NuPower after the demerger, subject to the following:

1. Arafura Shareholders approve the proposed method of reorganisation of options;
2. The notice of meeting ("NOM") to Arafura Shareholders contains all relevant information considered material to the proposed rights issue and demerger and reorganisation of the options;
3. The Independent Expert's Report opining as to whether the transaction is considered fair and reasonable is annexed to the NOM; and
4. Arafura Shareholders who are also Arafura Optionholders are excluded from voting.

9.6 Arafura Quoted Options

The exercise price of each Arafura Quoted Option is 20 cents.

The other terms of issue of the Arafura Quoted Options are:

- (i) the options are exercisable on or before 30 June 2008;
- (ii) the shares issued as a result of the exercise of any of these options will rank equally in all respects with previously issued shares;
- (iii) the options are exercisable by completing the application for exercise of options and delivering the same together with payment for the number of shares in respect of which the options are exercised to the registered office of the company;
- (iv) subject to ASX Listing Rules the options are transferable in whole or part at any time prior to expiry;
- (v) within 14 days of the receipt of a properly executed notice of exercise and application monies, Arafura will issue to the optionholder the number of shares specified in that notice;
- (vi) optionholders are permitted to participate in new issues of securities offered to shareholders on the prior exercise of the option in which case the optionholder shall be afforded the period of at least 10 business days prior to and inclusive of the books' closing date (to determine the entitlements to the issue) to exercise the option; and
- (vii) in the event of any reorganisation (including consolidation, subdivision, reduction or cancellation) of the issued capital of Arafura, the options are to be reorganised in a manner required by ASX Listing Rules on a reorganisation of capital.

9.7 Arafura Executive Options (unquoted)

As at the date of this Prospectus the holders of Arafura Executive Options, and the key terms of those options, are:

	Holder	Number	Exercise Price	Vesting Date	Expiry

1	Alistair J Stephens as trustee for the Riatsila Family Trust	1,000,000	\$0.20	1-Sep-2005	30-Jun-2008
2	Alistair J Stephens as trustee for the Riatsila Family Trust	1,000,000	\$0.20	1-Sep-2006	30-Jun-2008
3	Alistair J Stephens as trustee for the Riatsila Family Trust	1,000,000	\$0.20	1-Sep-2007	30-Jun-2008
4	Gavin and Toni Lockyer as trustees for the Lockyer Family Trust	500,000	\$0.40	20-Jun-2007	30-Jun-2009
5	Gavin and Toni Lockyer as trustees for the Lockyer Family Trust	500,000	\$0.45	20-Jun-2008	30-Jun-2009
	Total	4,000,000			

The other terms of issue of the Arafura Executive Options are:

- (i) The options are only capable of being exercised from the date on which they vest up to and including the expiry date;
- (ii) Should the Officer resign all unexercised options will lapse (whether they have vested or not);
- (iii) Should the Officer be dismissed for misconduct all unexercised options will lapse (whether they have vested or not);
- (iv) Should the Officer's employment be terminated for any other reason all unexercised options will lapse (whether they have vested or not) unless the Board decides otherwise;
- (v) The options are exercisable by notifying the company in writing specifying the number of options being exercised and delivering it, together with payment for the number of shares in respect of which the options are exercised, to the registered office of the company;
- (vi) Options will not be listed for Official Quotation on ASX;
- (vii) The options may not be transferred or otherwise disposed of in whole or part at any time prior to expiry;
- (viii) Within 14 days of the receipt of a properly executed notice of exercise and application monies the company will allot and issue the number of shares specified in the notice;
- (ix) Arafura will apply for Official Quotation by ASX of the shares allotted and issue pursuant to the exercise of the options;
- (x) The options do not confer the right to participate in new issues of capital during the exercise period. Arafura will give not less than 10 Business Days notice to the Officer to exercise his options prior to the date of determining shareholders entitlements for any new issues of capital that occur during the option exercise period;
- (xi) In the event of any reorganisation (including consolidation, subdivision, reduction or return of capital) of the share capital of Arafura, the options are to be reorganised as required by the ASX Listing Rules;
- (xii) If an entity (as that term is defined in the Corporations Act) acquires 90% of the shares on issue in Arafura and has the ability to compulsory acquire

the remainder of the shares on issue pursuant to Part 6A.1 of the Corporations Act, all options that have not yet vested will immediately vest and the options will be deemed to expire on the date which is the earlier of 3 months from the date of vesting and 30 June 2008; and

- (xiii) All options may be exercisable by the optionholder:
- (1) during a bid period; or
 - (2) at any time after a change of control event has occurred; or
 - (3) on application under section 411 of the Corporations Act, if a court orders a meeting to be held concerning a proposed compromise or arrangement for the purposes of or in connection with a scheme for the reconstruction of Arafura or its amalgamation with any other company.

9.8 Arafura Employee Options (unquoted)

As at the date of this Prospectus the holders of Arafura Employee Options, and the key terms of those options, are:

	Holder	Number	Exercise Price	Vesting Date	Expiry
1	Steven and Joy Mackowski as trustee for the Mackowski Family Trust	100,000	\$0.34	15-Jun-2007	30-Jun-2009
2	Steven and Joy Mackowski as trustee for the Mackowski Family Trust	250,000	\$0.40	1-Feb-2007	30-Jun-2009
3	Steven and Joy Mackowski as trustee for the Mackowski Family Trust	250,000	\$0.45	1-Feb-2008	30-Jun-2009
4	Kelvin Hussey	100,000	\$0.34	15-Jun-2007	30-Jun-2009
	Total	700,000			

The other terms of issue of the Arafura Employee Options currently on issue are:

- (i) The options are exercisable on or before 30 June 2009;
- (ii) The shares issued as a result of the exercise of any of these options will rank equally in all respects with previously issued shares;
- (iii) The options are exercisable by completing the application for exercise of options and delivering the same together with payment for the number of shares in respect of which the options are exercised to the registered office of Arafura;
- (iv) The options may not be transferred or otherwise disposed of in whole or part at any time prior to expiry;
- (v) Within 14 days of the receipt of a properly executed notice of exercise and application monies the company will issue to the optionholder the number of shares specified in that notice;
- (vi) Optionholders are permitted to participate in new issues of securities offered to shareholders on the prior exercise of the option in which case the optionholder shall be afforded the period of at least 10 business days prior

to and inclusive of the books' closing date (to determine the entitlements to the issue) to exercise the option; and

- (vii) In the event of any reorganisation (including consolidation, subdivision, reduction or cancellation) of the issued capital of the company, the options are to be reorganised in a manner required by the ASX Listing Rules on a reorganisation of capital.

9.9 Change in company type and name

On 23 November 2006, Arafura Shareholders resolved to change Arafura's company type from a public company with no liability to a public company limited by shares. The change is expected to become effective in early 2007. When the change takes effect Arafura's name will change from "Arafura Resources NL" to "Arafura Resources Limited".

10 Additional Information relating to NuPower

10.1 Rights and liabilities attaching to NuPower Shares

The NuPower Shares issued under the Asset Sale and Subscription Agreement will be fully paid ordinary shares in the capital of NuPower and will rank equally with NuPower's existing shares. The rights and liabilities attaching to NuPower Shares are:

- set out in the NuPower Constitution; and
- in certain circumstances, regulated by the Corporations Act, the ASX Listing Rules, the ACH Clearing Rules, the ASTC Settlement Rules and the common law.

A summary of the principal rights and liabilities attaching to NuPower Shares is set out below. This summary does not purport to be exhaustive or to constitute a definitive statement of the rights and liabilities of NuPower Shareholders. For a NuPower Shareholder to obtain a definitive assessment of the rights and liabilities which attach to NuPower Shares in any specific circumstances, that NuPower Shareholder should seek independent legal advice.

(a) Voting

At a general meeting, on a show of hands every NuPower Shareholder present in person or by proxy, attorney or representative has one vote. At the taking of a poll, every ordinary NuPower Shareholder present in person and whose shares are fully paid has one vote for each of his or her shares. On a poll, the holder of a partly paid share has a fraction of a vote with respect to the share. The fraction is equivalent to the proportion which the amount paid (not credited) bears to the total amount paid and payable (excluding amounts credited).

(b) General meetings

Each NuPower Shareholder is entitled to receive notice of, attend and vote at general meetings of NuPower and to receive all notices, financial statements and other documents required to be sent to ordinary shareholders under the Constitution, the Corporations Act and the ASX Listing Rules.

(c) Dividends

The Directors may pay to NuPower Shareholders any interim and final dividends as, in the Directors judgement, the financial position of NuPower justifies. The

Directors may fix the amount, the record date for determining eligibility and the method of payment. All dividends must be paid to the NuPower Shareholders in proportion to the number and the amount paid on the shares held. This is subject to rights attaching to shares with special dividend rights.

(d) Transfer of shares

Generally, all NuPower Shares are freely transferable subject to the procedural requirements of the Constitution and to the provisions of the Corporations Act, the ASX Listing Rules, the ASTC Settlement Rules and any restrictions attached to an ordinary NuPower Shareholder's Shares. The Directors may decline to register an instrument of transfer received where the transfer is not in registrable form or where refusal is permitted under the ASX Listing Rules or the ASTC Settlement Rules. If the Directors decline to register a transfer, NuPower must give notice of the refusal. The Directors must decline to register a transfer when required by the Corporations Act, the ASX Listing Rules or the ASTC Settlement Rules.

(e) Variation of rights

NuPower may only vary the rights attaching to any class of shares with the prior approval by a special resolution of the holders of shares in that class at a meeting of those holders, or with the written consent of the holders of at least 75% of the issued shares of that class.

(f) Directors

The minimum number of Directors is four and the maximum is nine unless a NuPower general meeting determines otherwise. Currently, there are four Directors. Directors must retire on a rotational basis with one-third of Directors having to retire at each annual general meeting providing the number of Directors is more than 5 (excluding a director who is a managing director and a director appointed by the Directors as an addition to the existing Directors or to fill a casual vacancy.). If the number of Directors is less than 5, only 2 of the Directors must retire by rotation. Any other Director (excluding the managing director) who has been in office for three or more years must also retire. A retiring Director is eligible for re-election. The Directors may appoint a Director either in addition to existing Directors or to fill a casual vacancy, who then holds office until the next annual general meeting.

(g) Decisions of Directors

Questions arising at a meeting of Directors are decided by a majority of votes. Except where there are only 2 Directors present or entitled to vote at a meeting of Directors, the Chairperson has a casting vote.

(h) Issue of further shares

Subject to the NuPower Constitution, the Corporations Act and the ASX Listing Rules, the Directors may issue, or grant options in respect of, shares to such persons on such terms as they think fit. In particular, the Directors may issue preference shares, including redeemable or convertible preference shares, and may issue shares with preferred or special rights or restrictions in relation to dividends, voting, return of capital and participation in surplus on winding up.

(i) Officers' indemnity

To the full extent permitted by the law and to the extent not covered by insurance, NuPower must indemnify each officer of NuPower on a full indemnity basis against any losses, liabilities, costs, charges and expenses incurred by the person as an officer of NuPower or a related body corporate.

(i) **Alteration to the Constitution**

The NuPower Constitution can only be amended by a special resolution passed by at least 75% of NuPower Shareholders present and voting at a general meeting. At least 28 days notice of the intention to propose the special resolution must be given.

10.2 Terms of Issue of the NuPower Quoted Options

The exercise price of each NuPower Quoted Option will be 20 cents.

The other terms of issue of the NuPower Quoted Options will be identical to the terms of issue of the Arafura Quoted Options, namely:

- (i) the options are exercisable on or before 30 June 2008;
- (ii) the shares issued as a result of the exercise of any of these options will rank equally in all respects with previously issued shares;
- (iii) the options are exercisable by completing the application for exercise of options (see below) and delivering the same together with payment for the number of shares in respect of which the options are exercised to the registered office of NuPower;
- (iv) subject to the ASX Listing Rules the options are transferable in whole or part at any time prior to expiry;
- (v) should NuPower's shares become quoted NuPower will apply for Official Quotation by ASX of all shares allotted pursuant to the exercise of the options;
- (vi) within 14 days of the receipt of a properly executed notice of exercise and application monies, NuPower will issue to the optionholder the number of shares specified in that notice;
- (vii) optionholders are permitted to participate in new issues of securities offered to shareholders on the prior exercise of the option in which case the optionholder shall be afforded the period of at least 10 business days prior to and inclusive of the books' closing date (to determine the entitlements to the issue) to exercise the option; and
- (viii) in the event of any reorganisation (including consolidation, subdivision, reduction or cancellation) of the issued capital of NuPower, the options are to be reorganised in a manner required by the ASX Listing Rules on a reorganisation of capital.

10.3 Terms of Issue of the NuPower Class A Options

The key terms of the unquoted NuPower Class A Options will be:

	Holder	Number	(Original Arafura Exercise Price)	NuPower Exercise Price	Vesting Date	Expiry
1	Alistair J Stephens as trustee for the Riatsila Family Trust	333,333	(\$0.20)	\$0.20	1-Sep-2005	30-Jun-2008
2	Alistair J Stephens as trustee for the Riatsila Family Trust	333,333	(\$0.20)	\$0.20	1-Sep-2006	30-Jun-2008

3	Alistair J Stephens as trustee for the Riatsila Family Trust	333,333	(\$0.20)	\$0.20	1-Sep-2007	30-Jun-2008
4	Gavin and Toni Lockyer as trustees for the Lockyer Family Trust	166,667	(\$0.40)	\$0.41	20-Jun-2007	30-Jun-2009
5	Gavin and Toni Lockyer as trustees for the Lockyer Family Trust	166,667	(\$0.45)	\$0.46	20-Jun-2008	30-Jun-2009
	Total	1,333,333				

The other terms of issue of the unquoted NuPower Class A Options for each holder will be identical to the terms of the Arafura Executive Options for that holder, which are set out in Section 9.7 above.

10.4 Terms of Issue of the NuPower Class B Options

The key terms of the unquoted NuPower Class B Options will be:

	Holder	Number	(Original Arafura Exercise Price)	NuPower Exercise Price	Vesting Date	Expiry
1	Steven and Joy Mackowski as trustee for the Mackowski Family Trust	33,333	(\$0.34)	\$0.35	15-Jun-2007	30-Jun-2009
2	Steven and Joy Mackowski as trustee for the Mackowski Family Trust	83,333	(\$0.40)	\$0.41	1-Feb-2007	30-Jun-2009
3	Steven and Joy Mackowski as trustee for the Mackowski Family Trust	83,333	(\$0.45)	\$0.46	1-Feb-2008	30-Jun-2009
4	Kelvin Hussey	33,333	(\$0.34)	\$0.35	15-Jun-2007	30-Jun-2009
	Total	233,332				

The other terms of issue of the unquoted NuPower Class B Options will be identical to the terms of the Arafura Employee Options, which are set out in Section 9.8 above.

10.5 Material contracts

Asset Sale and Subscription Agreement between Arafura and NuPower

This contract is summarised in Section 9.1 above.

Services Agreement between Arafura and NuPower

The Services Agreement (SA), dated 12 January 2007, is between:

- Arafura Resources NL (**Arafura**); and
- NuPower Resources Limited (**NuPower**).

Under the SA, Arafura agrees to make personnel, office space and general administrative services to NuPower including, but not limited to, company secretarial services, accountancy services, tenement management services, general office services and secretarial services.

In return for the provision of services outlined above NuPower must pay to Arafura certain fees.

The term of the SA is five years. NuPower may in its discretion terminate the agreement on giving 30 days notice to Arafura.

Arafura may not terminate the agreement unless NuPower commits a material breach under the SA and within 60 days of receiving notice of such breach from Arafura does not remedy the breach.

10.6 Related party transactions

Other than as disclosed elsewhere in this Prospectus, NuPower is not a party to any agreement that would be considered a related party transaction.

10.7 Litigation and material disputes

As at the date of this Prospectus, NuPower is not involved in any legal or administrative proceedings and the Directors are not aware of any claim or threatened claim against NuPower which may result in material legal proceedings.

10.8 Interests of NuPower Directors and promoters

Other than as set out below or elsewhere in this Prospectus, no director or promoter of NuPower (or entity in which they are a partner or director) has, or has had in the two years before the date of this Prospectus, any interest in:

- the formation or promotion of NuPower;
- property acquired or proposed to be acquired by NuPower in connection with its formation or promotion of NuPower; or
- the issue of NuPower Shares or NuPower Options,

and, other than as set out below or elsewhere in this Prospectus, no amounts have been paid or agreed to be paid and no value or other benefit has been given or agreed to be given to:

- any director of NuPower to induce him to become or to qualify as a director of NuPower; or
- any director or promoter of NuPower (or entity in which they are a partner or director) for services which he or she has provided in connection with the formation or promotion of NuPower or the issue of NuPower Shares or NuPower Options.

The NuPower directors and their related entities have the following interests in the NuPower Shares and the NuPower Options as at the date of this Prospectus.

Directors' interests include interests they have in NuPower Shares registered in the name of other persons. Option terms have previously been disclosed to ASX. Directors holding NuPower Shares will be entitled to participate in the Offer on the same basis as other NuPower Shareholders.

NuPower Director	NuPower Shares Held Directly or Indirectly	ASX Quoted Options Held Directly or Indirectly	UnQuoted Options Held Directly or Indirectly
Dennis O'Neill	Nil	Nil	Nil. If the Demerger proceeds Mr O'Neill will be granted a total of 3,000,000 NuPower Executive Options (exercise price \$0.25, expiry date 1/1/2010; 1,000,000 options vesting 1/1/2007; 1,000,000 options vesting 1/1/2008 and 1,000,000 options vesting 1/1/2009
Irvin (Mick) Muir	Nil	Nil	Nil
Ian Kowalick	Nil		Nil

10.9 Privacy notification

The *Privacy Act* 1988 (Cth) regulates the way NuPower collects, uses, disposes, keeps secure and gives people access to their personal information.

NuPower collects, holds and uses that personal information in order to administer your shareholding or optionholding in NuPower, including:

- setting up and maintaining a register of Shareholders and Optionholders in accordance with the Corporations Act;
- paying dividends to shareholders should NuPower at a later date declare a dividend;
- communicating with Shareholders, including sending annual reports, notices of meetings and any other documents which NuPower wishes to send to you as a Shareholder;
- carrying out general administration including monitoring, auditing, evaluation, modelling data, dealing with complaints and answering queries; and
- complying with its legal and regulatory obligations.

Your personal information may be provided to NuPower's agents or service providers.

The types of agents and service providers that may be provided with your personal information include:

- the Share Registry for ongoing administration of the share register;
- printers and mail houses for the purposes of preparation and distribution of documents to you and for handling mail; and

- professional service providers such as lawyers, accountants, auditors and other professional advisers for the purpose of administering, and advising on, the NuPower Shares or NuPower Options and for any associated actions.

Your personal information may be provided to certain third parties. The types of third parties that may be provided with your personal information, and the circumstances in which your personal information may be disclosed, include:

- your financial adviser or broker (other than your tax file number information) in connection with services provided to you by your adviser or broker;
- government, regulatory authorities or other people when permitted or required by law, such as ASIC or people inspecting the Share register in accordance with the Corporations Act;
- ASX; and
- in certain circumstances and with safeguards to respect your privacy, potential or actual purchasers of an interest in NuPower or NuPower's business or any part thereof.

You have the right to gain access to your personal information held by, or on behalf of, NuPower, subject to certain exemptions under the law. You may be required to pay a reasonable charge in order to access your personal information. You can request access to your personal information by telephoning or writing to the Company Secretary as follows:

NuPower Resources Limited
Company Secretary
Level 4, 16 St Georges Terrace
Perth WA 6000

10.10 NuPower and ASX Quotation

NuPower will make application to the ASX within 7 days following the date of this Prospectus for the official quotation of the NuPower Shares and the NuPower Quoted Options.

Quotation, if granted, will commence as soon as practicable after statements of holdings are dispatched.

If approval is not granted by ASX within 3 months after the date of this Prospectus, then the NuPower Shares will not be distributed and the NuPower Options will not be issued, and NuPower will remain a 100% owned subsidiary of Arafura.

10.11 NuPower and CHESS

NuPower will not be issuing share certificates. NuPower will apply to the ASX to participate in CHESS, for those investors who have, or wish to have, a sponsoring stockbroker. Investors who do not wish to participate through CHESS will be issuer sponsored by NuPower. Because the sub-registers are electronic, ownership of securities can be transferred without having to rely upon paper documentation.

Electronic registers mean that NuPower will not be issuing certificates to investors. Instead, investors will be provided with a statement (similar to a bank account statement) that sets out the number of NuPower Shares distributed to them or Options granted to them. The notice will also advise holders of their Holder Identification Number (HIN) or Shareholder Reference Number (SRN) and explain, for future reference, the sale and purchase procedures under CHESS and issuer sponsorship.

Further monthly statements will be provided to holders if there have been any changes in their security holding in NuPower during the preceding month.

10.12 Waivers granted by ASX to NuPower in relation to Listing Rules

NuPower has obtained the waivers from ASX in relation to the ASX Listing Rules to enable the Demerger to be implemented as follows:

1. Based solely on the information provided, on receipt of an application for admission to the official list of the ASX by NuPower, ASX would be likely to do each of the following:
 - 1.1 permit NuPower to satisfy Listing Rule 1 condition 3 with a prospectus issued in connection with the distribution in specie of shares in NuPower to the shareholders of Arafura and other purposes but under which no fundraising will be undertaken.
 - 1.2 Grant a waiver from Listing Rule 1.1 condition 7 to the extent necessary to permit NuPower to include for the purposes of satisfying this rule all shareholders (other than related parties or promoters of NuPower or Arafura) who hold a parcel of ordinary shares with a value of at least \$2,000 by reason of their having participated in a pro rata distribution in specie of shares in NuPower made by Arafura to its shareholders, on condition that:
 - 1.2.1 Arafura, before the distribution in specie, undertakes a pro rata rights issue;
 - 1.2.2 Arafura, before the distribution in specie, transfers at least \$8,000,000 of the funds raised under its rights issue to NuPower;
 - 1.2.3 the Arafura rights issue prospectus states that the purpose of the fundraising is to raise cash for NuPower in the event that NuPower's listing is successful, and identifies the proportion of the funds raised to be devoted to that purpose; and
 - 1.2.4 no fewer than 200 persons subscribe under the Arafura rights issue prospectus for at least that number of Arafura shares as is necessary for the proportion of the funds they subscribe that is referable to providing cash to be transferred to NuPower to be worth at least \$2,000.
 - 1.3 Not require NuPower to provide audited accounts for the last 3 full financial years in accordance with Listing Rule 1.3.5(a).
 - 1.4 Not provide a full refund of NuPower's initial listing fee should the company withdraw its application to list on ASX, and apply the provisions of Table 4A – General Fees of Guidance Note 15.

- 1.5 Grant a waiver from Listing Rule 9.1 to the extent necessary that the restrictions of Appendix 9B not apply to the securities of NuPower distributed in specie on a pro rata basis to the shareholders of Arafura (other than shares so distributed to related parties or promoters of NuPower or Arafura, and their respective associates) ("Distributed Shares") and that no restriction agreements be entered into in relation to the Distributed Shares.

11 General Additional Information

11.1 Tax implications

Arafura and NuPower make no representation and provide no advice in relation to the tax consequences of the Demerger.

Arafura Shareholders and Arafura Optionholders and NuPower Shareholders and NuPower Optionholders should seek professional taxation advice about the tax consequences of the Demerger.

Arafura has applied to the Australian Taxation Office for a taxation ruling on the tax consequences of the Demerger for an Australian resident Arafura Shareholder. Arafura will make that ruling available to shareholders once it is provided.

11.2 Brokerage and stamp duty

No brokerage or stamp duty will be payable by Arafura Shareholders in respect of Arafura distributing the NuPower Shares to Eligible Demerger Shareholders.

No brokerage or stamp duty will be payable by Arafura Optionholders in respect of NuPower granting the NuPower Options to Eligible Demerger Optionholders.

11.3 Interests of advisers

Other than as set out below or elsewhere in this Prospectus, all persons named in this Prospectus as having performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus do not have, and have not had in the two years before the date of this Prospectus, any interests in:

- the formation or promotion of Arafura or NuPower;
- property acquired or proposed to be acquired by Arafura or by NuPower in connection with its formation or promotion or the Demerger; or
- the Demerger,

and, other than as set out below or elsewhere in this Prospectus, no amounts have been paid or agreed to be paid and no other benefit has been given or agreed to be given to any persons named in this Prospectus as having performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus, in connection with the formation or promotion of Arafura or NuPower or the Demerger.

Freehills has acted as Australian legal adviser to Arafura in relation to the Demerger. Freehills' fees for the Demerger work up to the date of lodgement of this Prospectus will be approximately \$265,000. Freehills receives further fees for

additional work done determined on the basis of hours spent at its ordinary hourly rates.

Ernst & Young Transaction Advisory Services Limited has acted as corporate adviser to Arafura and will receive fees of approximately \$175,000.

11.4 Consents to being named in the Prospectus

Ernst & Young Transaction Advisory Services Limited has given and, at the time of lodging this Prospectus with ASIC, has not withdrawn its written consent to be named in the Prospectus as corporate adviser to Arafura.

Freehills has given and, at the time of lodging this Prospectus with ASIC, has not withdrawn its written consent to be named in this Prospectus as Australian legal adviser to Arafura in relation to the Demerger in the form and context in which it is named.

Security Transfer Registrars Pty Ltd has given and, at the time of lodging of this Prospectus with ASIC, has not withdrawn its consent to be named in this Prospectus as Share Registry for Arafura and for NuPower in the form and context in which it is named.

Each of Ernst & Young Transaction Advisory Services Limited, Freehills and Security Transfer Registrars Pty Ltd, jointly and severally:

- do not make the offer of securities under this Prospectus;
- have not authorised or caused the issue of this Prospectus;
- do not make or purport to make, any statement in this Prospectus, or any statement in which a statement in this Prospectus is based, other than as specified above; and
- to the maximum extent permitted by law, expressly disclaim and take no responsibility for any part of this Prospectus other than the reference to their name or as otherwise specified above.

12 Allocation of Prospectus Responsibility

Arafura has prepared Sections 2, 4, 6 and 9 of this Prospectus and is solely responsible for those sections.

NuPower has prepared Sections 3, 7, 8 and 10 of this Prospectus and is solely responsible for those sections.

Arafura and NuPower have jointly prepared the Joint Chairman letter and Sections 1, 5 and 11 of this Prospectus.

13 Authorisation

Each Arafura Director has consented to the lodgement of this Prospectus with ASIC and has not withdrawn that consent.

Each NuPower Director has consented to the lodgement of this Prospectus with ASIC and has not withdrawn that consent.

This Prospectus is signed for and on behalf of Arafura by:

Alistair J Stephens
Managing Director
Arafura Resources NL
12 January 2007

This Prospectus is signed for and on behalf of NuPower by:

Dennis O'Neill
Director
NuPower Resources Limited
12 January 2007

14 Defined Terms and Interpretation

14.1 Defined Terms

In this Prospectus, unless the context otherwise requires, the following terms have the meanings listed:

AS or \$	Australian dollars.
Arafura	Arafura Resources NL ABN 22 080 933 455.
Arafura Constitution	The company constitution of Arafura.
Arafura Employee Options	Arafura Options which have not been granted Official Quotation by the ASX and whose terms are set out in Section 9.8.
Arafura Employee Optionholder	Means a registered holder of the Arafura Employee Options, which at the date of this Prospectus are the entities set out in Section 9.8.
Arafura Executive Options	Arafura Options which have not been granted Official Quotation by the ASX and whose terms are set out in Section 9.7.
Arafura Executive Optionholder	Means a registered holder of the Arafura Executive Options, which at the date of this Prospectus are the entities set out in Section 9.7.
Arafura Options	The Arafura Quoted Options, the Arafura Executive Options and the Arafura Employee Options.
Arafura Optionholder	The registered holder of an Arafura Option.
Arafura Quoted Options	Arafura Options which have been granted Official Quotation by the ASX and whose terms are set out in Section 9.6.
Arafura Quoted Optionholder	Means the registered holder of an Arafura Quoted Option.
Arafura Share	A fully paid ordinary share issued in the share capital of Arafura.
Arafura Shareholder	The registered holder of an Arafura Share.
Asset Sale and Subscription Agreement	The agreement between Arafura and NuPower governing the transfer of the Demerger Assets, the material terms of which are summarised in Section 9.1
ASIC	Australian Securities & Investments Commission.
ASTC Settlement Rules	The Settlement Rules for the ASX Settlement & Transfer Corporation Pty Ltd

	ABN 49 008 504 532.
ASX	ASX Limited ABN 98 008 624 691.
Business Day	Has the meaning given to that term in the Listing Rules.
CHESS	Has the meaning attributed to that term in the ASTC Settlement Rules.
Corporations Act	<i>Corporations Act 2001</i> (Cth).
Demerger or Proposed Demerger	The proposed demerger described in Section 2.
Demerger Assets	The assets and rights to be transferred from Arafura to NuPower in accordance with the terms of the Asset Sale and Subscription Agreement, as referred to in Section 4.
Demerger Record Date	7pm Sydney time on 26 February 2007.
Eligible Arafura Employee Optionholder	A registered holder of Arafura Employee Options on the Demerger Record Date.
Eligible Arafura Executive Optionholder	A registered holder of Arafura Executive Options on the Demerger Record Date.
Eligible Demerger Optionholder	A registered holder of Arafura Options on the Demerger Record Date.
Eligible Demerger Shareholder	A registered holder of Arafura Shares on the Demerger Record Date.
JORC Code	Australasian Code for Reporting of Mineral Resources and Ore Reserves.
Listing Rules	The official listing rules of ASX.
NuPower	NuPower Resources Limited ACN 120 787 859.
NuPower Class A Options	NuPower Options which will not be granted Official Quotation by the ASX and will be granted to Eligible Arafura Executive Optionholders on the terms set out in Section 10.3.
NuPower Class B Options	NuPower Options which will not be granted Official Quotation by the ASX and will be granted to Eligible Arafura Employee Optionholders on the terms set out in Section 10.4.
NuPower Options	NuPower Quoted Options, NuPower Class A Options and NuPower Class B Options.
NuPower Quoted Options	NuPower Options which will be granted Official Quotation by the ASX and whose terms are set out in Section 10.2.
NuPower Shares	A fully paid ordinary share issued in the share capital of NuPower.

Prospectus	This Prospectus dated 12 January 2007.
Rights Issue	The pro rata non-renounceable offer to Arafura Shareholders announced on 14 November 2006 and which closed on 14 December 2006, to subscribe for 2 new Arafura Shares at the price of \$0.36 per new Arafura Share for every 5 Arafura Shares held.
Section	A section of this Prospectus.
Share Registry	Security Transfer Registrars Pty Ltd ABN 95 008 894 488.
U₃O₈	Uranium Oxide.
U.S. or United States	The United States of America, its territories and possessions, any State of the United States and the District of Columbia.
US\$	United States dollars.
WA	Western Australia.

14.2 Interpretation

In this Prospectus, unless the context otherwise requires:

- (a) words and phrases have the same meaning (if any) given to them in the Corporations Act;
- (b) words importing a gender include any gender;
- (c) words importing the singular include the plural and vice versa;
- (d) an expression importing a natural person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;
- (e) a reference to a section is a reference to a section of this Prospectus;
- (f) a reference to a statute, regulation, proclamation, ordinance or by-law includes all statutes, regulations, proclamations, ordinances or by-laws amending, consolidating or replacing it, whether passed by the same or another government agency with legal power to do so, and a reference to a statute includes all regulations, proclamations, ordinances and by-laws issued under that statute;
- (g) headings and boldings are for convenience only and do not affect the interpretation in this Prospectus;
- (h) a reference to time, unless otherwise stated, is a reference to Western Standard Summer Time;
- (i) a reference to writing includes email and facsimile transmissions; and
- (j) the words “resource” and “reserve”, whether capitalised or not have the same meaning as in the JORC Code.

Arafura Corporate Directory

Directors	Peter N Walker Non-Executive Chairman Alistair Stephens Managing Director Irvin (Mick) G Muir Non-Executive Director Ian Kowalick Non-Executive Director
Company Secretary	Gavin Lockyer
Registered and Principal Office	Level 4 16 St Georges Terrace Perth WA 6000 Telephone: (61-8) 9221 7666 Facsimile: (61-8) 9221 7966
Website	http://www.arafuraresources.com.au This Prospectus and detailed public information regarding Arafura is available on the above website.
Share Registry	Security Transfer Registrars Pty Ltd 770 Canning Highway Applecross WA 6153 Telephone: (61-8) 9315 2333 Facsimile: (61-8) 9315 2233
Stock Exchange	Arafura is listed on the Australian Stock Exchange. The home exchange is the Australian Stock Exchange (Perth).
ASX Code	ARU
Corporate Adviser	Ernst & Young Transaction Advisory Services Limited The Ernst & Young Building 11 Mounts Bay Road Perth WA 6000
Solicitors	Freehills QV1 Building 250 St Georges Terrace Perth WA 6000

NuPower Corporate Directory

Directors	Irvin (Mick) G Muir Chairman Dennis O'Neill Director Ian Kowalick Non-executive director
Company Secretary	Gavin Lockyer
Registered and Principal Office	Level 4 16 St Georges Terrace Perth WA 6000
Share Registry	Security Transfer Registrars Pty Ltd 770 Canning Highway Applecross WA 6153 Telephone: (61-8) 9315 2333 Facsimile: (61-8) 9315 2233