



ABN 22 080 933 455

ASX RELEASE

17 February 2010

Arafura announces a Placement of \$17.5 million and a renounceable Rights Issue to raise up to an additional \$17.8 million to advance the Nolans Project to meet world demand for Rare Earths.

The Directors of Arafura Resources Limited (**ASX: ARU**) ("**Arafura**" or "**the Company**") are pleased to announce a capital raising comprising:

- a Placement to accredited institutional investors and sophisticated investors who have committed to subscribe for **28.2 million shares at A\$0.62 per share to raise A\$17.5 million** before issue costs (this placement was approved by Shareholders at the Company's AGM in November 2009); and
- a 1 for 10 pro-rata renounceable Rights Issue ("Rights Issue") to eligible *Shareholders* at **A\$0.62 per share to raise up to A\$17.8 million** before issue costs. The Rights Issue will not be underwritten.

Major Shareholder East China Exploration & Development Bureau ("ECE") has been invited to maintain its pro-rata shareholding (24.86%) at the Placement price. Any investment by ECE will require Australian and Chinese regulatory approvals. In the event that timing of regulatory approvals prevents ECE from participating in the Rights Issue, additional shares will be made available to enable it to maintain current pro-rata shareholding of 24.86% if it elects to do so, and subject to regulatory approval. If ECE elects and is able to maintain its current pro-rata shareholding and it is by way of placement only a further \$11.7m would be raised. If ECE achieves its pro rata shareholding in full or part by way of the rights issue then the amount of additional capital raised will be less.

The funds raised, together with Arafura's existing cash reserves, will be used for:

- ongoing drilling and exploration activity with the aim to define the full extent of the Nolans resource;
- progressing activities of the Nolans Project's Bankable Feasibility Study and the Environmental Study; and
- corporate and offer costs as well as working capital requirements.

Arafura Managing Director, Dr Steve Ward said "The capital raising has been structured to both attract new institutional Shareholders and, importantly, to encourage maximum participation by our existing Shareholders."

"The Board's decision to include a pro-rata Rights Issue to existing Shareholders is in recognition of their long-term support of Arafura throughout the development of its key asset, the wholly-owned Nolans Rare Earth Project, and provides further opportunity to participate in the Company's future growth," Dr Ward said.

“The new funds will enable Arafura to move forward at full pace with the Nolans Project and with other related work programs.”

Nolans Project Strategic Importance

Demand for Rare Earths continues to grow underpinned by new technology and clean energy applications. Industry commentators all note that suppliers will struggle to keep pace with future demand, with shortfalls likely. Historically, China has supplied approximately 95% of the global rare earth needs. In the past few months, China has indicated its intention to reduce and regulate exports to meet its increasing domestic needs. This will further tighten global rare earth markets..

Dr Ward said “Arafura’s 100%-owned Nolans Project contains a world-class rare earths deposit capable of supporting a 20-year mine life and the Company is targeting production of 20,000 tonnes of Rare Earth Oxide (REO) per annum from 2013.”

“The fact that Arafura is one of the few near-term rare earths producers outside China capable of supplying customers in markets throughout the world makes the Company attractive to all global rare earth users.”

Placement

Arafura has finalised a private Placement 28.2 million shares of the Company at an issue price of A\$0.62 per share, to accredited institutional investors and sophisticated investors for gross proceeds of A\$17.5 million. The Placement was managed by BBY Limited and Bell Potter Securities Limited

The Placement Settlement date is Tuesday, 23 February 2010. The New Shares will be allotted on Wednesday, 24 February and commence trading on that date.

Rights Issue

In addition to the Placement, Arafura intends to undertake a 1 for 10 renounceable Rights Issue at an issue price of A\$0.62 per share to eligible Shareholders. The Rights Issue will allow existing Shareholders to take up their entitlement at the same price as the Placement. The Rights issue will be available to the expanded share register after the Placement has been completed with qualification as per the Rights issue program. Arafura will reserve the right to place e any shortfall in the Rights issue.

Full details and terms and conditions of the Rights Issue will be contained in a Prospectus to be lodged with both ASIC and the ASX and dispatched to Shareholders shortly. The Rights Issue is not intended to be subject to an underwriting agreement. Pursuant to regulatory approvals for the rights issue timetable, Arafura would anticipate closure of the Rights Issue transaction around the end of March.