



ABN 22 080 933 455

4 March 2008

Mr Thomas Dreifuert  
Manager Corporate Actions International  
WM gruppe  
WM Datenservice  
Düsseldorfferstr. 16  
60329 Frankfurt a.M.

**RE: ARAFURA DEMERGER TAX RELIEF CLASS RULING**

Dear Mr Dreifuert,

It has been brought to my attention by some German shareholders that the demerger of Arafura Resources' (Arafura) uranium assets into NuPower Resources (NuPower) in 2007 has resulted in some confusion regarding the tax treatment for the re-organisation of capital in Arafura.

Prior to the demerger, NuPower was a wholly-owned subsidiary of Arafura, and Arafura and NuPower were members of a consolidated group for Australian tax law purposes. Under an asset sale and subscription agreement dated 12 January 2007, Arafura transferred AUD\$8.8 million cash and a number of mining tenements, tenement applications and tenement rights to NuPower. As consideration (in part) for the transfer of those assets, NuPower agreed to issue ordinary shares to Arafura.

At the time of share issue NuPower was a wholly owned subsidiary of Arafura.

At a General Meeting held on 16 February 2007, Arafura shareholders agreed to the demerger by Arafura of NuPower. Arafura shareholders passed resolutions approving:

- a capital reduction by way of an *in specie* distribution of NuPower ordinary shares; and
- a reduction in the exercise price of the Arafura options on issue.

The capital reduction resulted in Arafura distributing 90% of the ordinary shares it owned in NuPower to Arafura shareholders. Arafura shareholders received one NuPower share for every three Arafura shares they held on the Record Date (being 26 February 2007). A total of 39,583,372 NuPower shares were distributed to Arafura shareholders.

In addition, all Arafura option owners at Record Date received one option in NuPower for every three Arafura options they held. The exercise price of those NuPower options was set, and the exercise price of the existing Arafura options was adjusted to reflect the circumstances of the demerger.

As a result of the demerger:

- Arafura shareholders owned ordinary shares in both Arafura and NuPower; and
- Arafura option owners owned options in both Arafura and NuPower.

***Arafura accounted for the distribution of the ordinary shares in NuPower wholly as a return of share capital. This meant Arafura shareholders received a capital reduction amount of approximately \$0.068 for each of the Arafura shares they owned at Record Date.***

Please find enclosed a copy of the Demerger Tax Relief Class Ruling received from the Australian Taxation Office for your reference. If you have any queries, please do not hesitate to contact me on + 61 8 9221 7666.

Yours sincerely,

Gavin Lockyer  
CFO/ Company Secretary  
Arafura Resources Limited