

ASX ANNOUNCEMENT: 19 May 2010



Open Briefing with MD & CEO Steve Ward

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In this Open Briefing®, MD & CEO Steve Ward discusses

- Progress on the Nolans Project
- Work programs enhanced after successful fund raising
- Arafura's competitive position in the global supply chain for Rare Earths

Open Briefing interview:

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What is the status of the Nolans Project and what key milestones do you expect to announce in the short to medium term?

MD & CEO Steve Ward

After challenging times in 2008 and 2009 due to the Global Economic Crisis and scarcity of funds, we began 2010 with a clear intention to progress the Nolans Project to production as soon as possible. We have stepped up all our work programs after raising new funds in the first quarter of 2010 and are on schedule to commence production in 2013. There is much work currently in progress across the full range of our project activities. The nature of the work means it takes time to bring items to a state where they can be formally announced but we are delighted to outline our progress in five key areas.

Firstly, progress at the Nolans mine site continues strongly with drilling taking place to cover hydrology studies for the EIS. Mine optimisation work is also in progress with Whittle Consulting and first pass results are expected at the end of May 2010. In addition to this, we have completed the logistics study and the contract for final engineering studies required for the Bankable Feasibility Study will be awarded soon.

Secondly, chemical plant design studies continue and site selection work is now in its final phase with a limited number of short listed sites under comprehensive evaluation. This is a critical decision with long term implications for the company and requires interaction and working with a number of stakeholders including governments, regulators, land owners and communities.

Thirdly, Arafura's new technology continues to show strong results. Final pilot and demonstration work programs for new technology are progressing as planned.

Fourthly, there is significant interest in Arafura and future product sales and we continue to meet with potential customers and partners. Our challenge is to secure the right deals to create maximum value for our shareholders. We have and are resisting the temptation to secure an 'early easy' deal which would not provide sufficient value going forward.

Lastly, financing continues to be a priority. We have met with various organisations who are potential providers of project finance to understand their requirements from a BFS content perspective and the types of financing that might be possible. Again, we need to secure the best deal for our shareholders.

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The successful capital raising in the first quarter of 2010 enabled work programs to be stepped up. What is Arafura's current position regarding future funding?

MD & CEO Steve Ward

We were pleased with our fund raising program earlier this year. We successfully raised almost \$20 million via a placement to institutional and sophisticated investors, some of whom are new to Arafura, and a renounceable rights issue to existing shareholders. As anticipated, there is a residual shortfall from the renounceable rights issue as not all shareholders were able to take up their rights. We have some very loyal and longstanding shareholders and recognise that it isn't always possible for them to participate in our fund raising programs. We did, however, want to give them the opportunity to participate on the same terms as the placement in recognition of their prior support for the company.

We have the capability to place the residual shortfall of shares by 25 June 2010. Currently, we are considering possibilities for this shortfall. Once this is completed, we can offer our Chinese Strategic Investor, ECE, the opportunity to acquire shares (subject to regulatory approvals) to restore their shareholding level to 24.86%, which was their position prior to the fundraising program.

In terms of future funding requirements, we continue to assess our future needs and potential means to raise funds, both in terms of what is and what will be required to complete the Bankable Feasibility Study and then project financing.

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What are the major challenges and risks the Nolans Project faces and have any lingering effects of the global financial crisis impeded progress?

MD & CEO Steve Ward

The Nolans Project is a complex mega project involving some novel technology. Against this background, it is crucial for us to take all steps to de-risk the project, particularly the new technology, and to ensure that we have contemporary 'best practice' project management processes and systems in place. Our project financing requirements will be in the hundreds of millions of dollars so we need to ensure that our BFS meets all requirements of project financiers. These needs have become more detailed and demanding since the Global Economic Crisis as the risk appetite by financiers has declined.

Along with many of our peers, our shares have been impacted by the downward pressures of global and Australian financial markets. These events have occurred since our fund raising was completed. Our current cash balance equates to approximately 9 cents per share which is a notable component of our share price which is currently around 45 cents. This means the market is valuing Arafura's other assets, including the Nolans Project, at significantly less than 40 cents and we believe there is strong potential for the creation of further shareholder value. As always, investing in Arafura is strictly a decision for each individual and we are not in a position to make recommendations regarding investments in Arafura.

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What is driving recent demand and high prices for rare earths? Given the current undersupply of rare earth suppliers, where is Arafura's position in the market?

MD & CEO Steve Ward

The increased focus on Rare Earths is based on the future supply and demand balance dynamics of the industry. In recent years, China has produced approximately 97% of the world's Rare Earths and has supplied users worldwide. In the past two years, China has begun rationalising production with the closure of some old sources as well as regulating exports to the rest of the world. This has caused users outside China to become very concerned about future supplies.

In response to these changing market dynamics, a number of new projects have emerged recently as well as a build up of hype. In reality, there are substantial technological and financial barriers to entering the industry. It will take a successful project some 10-15 years to come into production from initial discovery. Consequently, there are very few projects that will come into production this decade. This view is increasingly being shared by Rare Earth industry commentators.

Arafura's Nolans Project is one of the very few new production sources that will emerge this decade. The economics of Rare Earths projects are complex and all differ due to a number of value drivers. Nolans has an overall excellent set of these drivers and Arafura is strategically placed to supply Rare Earths to users worldwide and ideally positioned to be successful going forward.

Finally, Arafura as a company will move rapidly from "Junior" to "Emerging Company" to "Full Operator" status in a very short time. Securing the right skilled staff to join the existing team to enable this journey to be completed successfully is something we will continue to focus on very carefully.

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The Australian Government has announced its intention to introduce a Resource Super Profit Tax (RSPT) from July 1 2012. How will this impact Arafura?

MD & CEO Steve Ward

At this point, the impact of the RSPT on individual mining enterprises, taken together with the various tax offset initiatives also announced by the Government, such as lowering company tax rate, and state royalty and resource exploration rebates, is somewhat uncertain. Some of these ambiguities will be worked through during the

Government's consultation process and Arafura welcomes the opportunity to participate in this process.

The reality is that Nolans isn't just a mining operation. Resource extraction represents a relatively minor part of the project. We also have a significant value adding chemical processing component so the tax treatment of an operation like ours may not be straight forward. We are carefully working through the issues to better understand the impact of a tax whose application to Australian-based value-add projects like Nolans isn't yet clear to us. We remain concerned about any new tax or charge which might potentially adversely impact Nolans, regardless of the scale of the impact.

Despite these uncertainties, from scenario modelling based on our current assessment, the Nolans Project fundamentals remain strong. Our ability to raise development capital to meet our 2013 production schedule will not be impacted and future returns to shareholders are unlikely to suffer materially.

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Looking forward, where do you see Arafura in 3-5 years time?

MD & CEO Steve Ward

The fundamentals are in place for Arafura to become one of Australia's largest chemical companies and the pre-eminent supplier of Rare Earths to the world. We have an exciting company development journey ahead. We have already started to focus beyond the first phase of Nolans, it is still open and our planned drill program is aimed at establishing the full extent of its potential. If the resource proves to be larger, there is the possibility of a second phase expansion during 2015 to 2020 when we believe Rare Earth supplies will still be very tight.

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After four months since you commenced as Managing Director and CEO of Arafura what can you say about the direction and strategy of the company?

MD & CEO Steve Ward

I am delighted to be in the role. Arafura has a great team of dedicated and loyal staff who are a pleasure to work with. In terms of future company direction, we have just completed a comprehensive strategic review with the Board. This work has confirmed the company's principal focus on creation of shareholder value by becoming the pre eminent supplier of Rare Earths to users worldwide.

The forward market fundamentals for Rare Earths are excellent. Demand is being driven by consumer desire for new technology applications such as iPods and LCD/LED screens, society's wish for clean energy applications, and regulator demand for efficient energy use. The challenge for the Rare Earths industry is on the supply side and how can producers meet the forecast demand growth. Arafura's Nolans Rare Earths resource is world class and provides the company with the means to capitalize on these future opportunities.

For more information about Arafura Resources Limited, visit www.arafuraresources.com.au or call Steve Ward on +61 8 6210 7666.

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