



MARKET RELEASE

29 September 2003

Arafura Resources NL

Arafura Resources NL has applied for admission to the official list of Australian Stock Exchange Limited and for quotation of its securities. It has been given a provisional ASX code. Provision of an ASX code and publication of the following information does not mean that the entity will be admitted or that its securities will be quoted.

Pam Ross
Manager Company Announcements Office



PROSPECTUS

For an Offer of 17,500,000 fully paid shares at an issue price of 20 cents per Share with
1 free Option for every 2 Shares issued to raise \$3,500,000

The Shares offered by this Prospectus should be considered speculative

Corporate Directory

DIRECTORS

Peter N Walker Non-Executive Chairman
I.G. (Mick) Muir Managing Director
Ian J Kowalick Non-Executive Director
Marcus H Rose Non-Executive Director

COMPANY SECRETARY

Ross J Arancini

PRINCIPAL OFFICE/REGISTERED OFFICE

Level 2, Suite 1
9 Bowman Street
South Perth WA 6151
Telephone (08) 9367 1433
Facsimile (08) 9367 1944
Email: arafura@bigpond.net.au

DARWIN OFFICE

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Ludmilla NT 0820
Telephone (08) 8941 3793
Facsimile (08) 8941 3793

SHARE REGISTRY

Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross WA 6153
Telephone (08) 9315 0933
Facsimile (08) 9315 2233

CORPORATE ADVISERS

Dalkeith Resources Pty Ltd
36 Cressy Street
Malvern Victoria 3144

Concept Equity Pty Ltd
Level 10, 356 Collins Street
Melbourne Victoria 3000

SPONSORING BROKER

Baker Young Stockbrokers Limited
Level 4, 81 Flinders Street
Adelaide SA 5000
&
Baker Young Stockbrokers Limited
Shop 5, 57 Marina Boulevard
Cullen Bay NT 0820

SOLICITORS TO THE COMPANY

Price Sierakowski
Level 24 St Martin's Tower
44 St George's Terrace
Perth WA 6000
Telephone (08) 9221 6733
Facsimile (08) 9221 6744

INDEPENDENT CONSULTING GEOLOGIST

Andrew Drummond & Associates Pty Ltd
68 Sycamore Drive
Duncraig WA 6023
Telephone (08) 9246 1213
Facsimile (08) 9243 0445

TECHNICAL ADVISERS (RARE EARTH PHOSPHATE)

Hydro Fertiliser Technology BV
(A Legal Entity within Hydro Agri)
c/o Hydro Belgium SA
Avenue Marcel Thiry 83
B 1200 Brussels
Belgium

INDEPENDENT ACCOUNTANTS

Horwath Securities (WA) Pty Ltd
128 Hay Street
Subiaco WA 6008
Telephone (08) 9380 8400
Facsimile (08) 9380 8499

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Key Dates:

- Prospectus lodged with ASIC 25 August 2003.
- Opening Date 15 September 2003.
- Closing Date 15 October 2003.
- Holding statements to be dispatched 20 October 2003.
- Date of Official Quotation of the Securities on ASX 22 October 2003.

The dates are indicative only. The Directors reserve the right to close the Offer at any earlier time or extend the Closing Date without prior notice. The date the Shares and Attaching Options are expected to commence trading on the ASX may vary with any change in the Closing Date.

Important Notice

This Prospectus is dated 25 August 2003 and was lodged with the ASIC on that date. The ASIC and ASX and their respective officers take no responsibility for the contents of this Prospectus or the merits of the investment to which the Prospectus relates.

The expiry date for this Prospectus is 15 October 2003. No securities will be allotted and issued on the basis of this Prospectus after the expiry date.

Application for ASX Listing

Application will be made to ASX within 7 days after the date of issue of this Prospectus for Official Quotation of the securities and the subject of this Prospectus.

Restrictions on Distribution

This Prospectus has been prepared by Arafura. In preparing this Prospectus, Arafura has taken reasonable steps to ensure that the information in this Prospectus is not false or misleading.

In doing so, Arafura has had regard to the prospectus requirements of the Corporations Law.

The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and therefore persons who come into possession of this document should seek advice on and observe any of these restrictions. Failure to comply with these restrictions may violate securities laws. Applicants who are resident in countries other than Australia should consult their professional advisers as to whether any governmental or other consents are required or whether any other formalities need to be considered and followed to enable them to subscribe for Shares.

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer.

Prospective investors should read the full text of this Prospectus as the information contained in individual

sections is not intended to and does not provide a comprehensive review of the business and financial affairs of the Company or of the securities offered under this Prospectus.

Web site – Electronic Prospectus

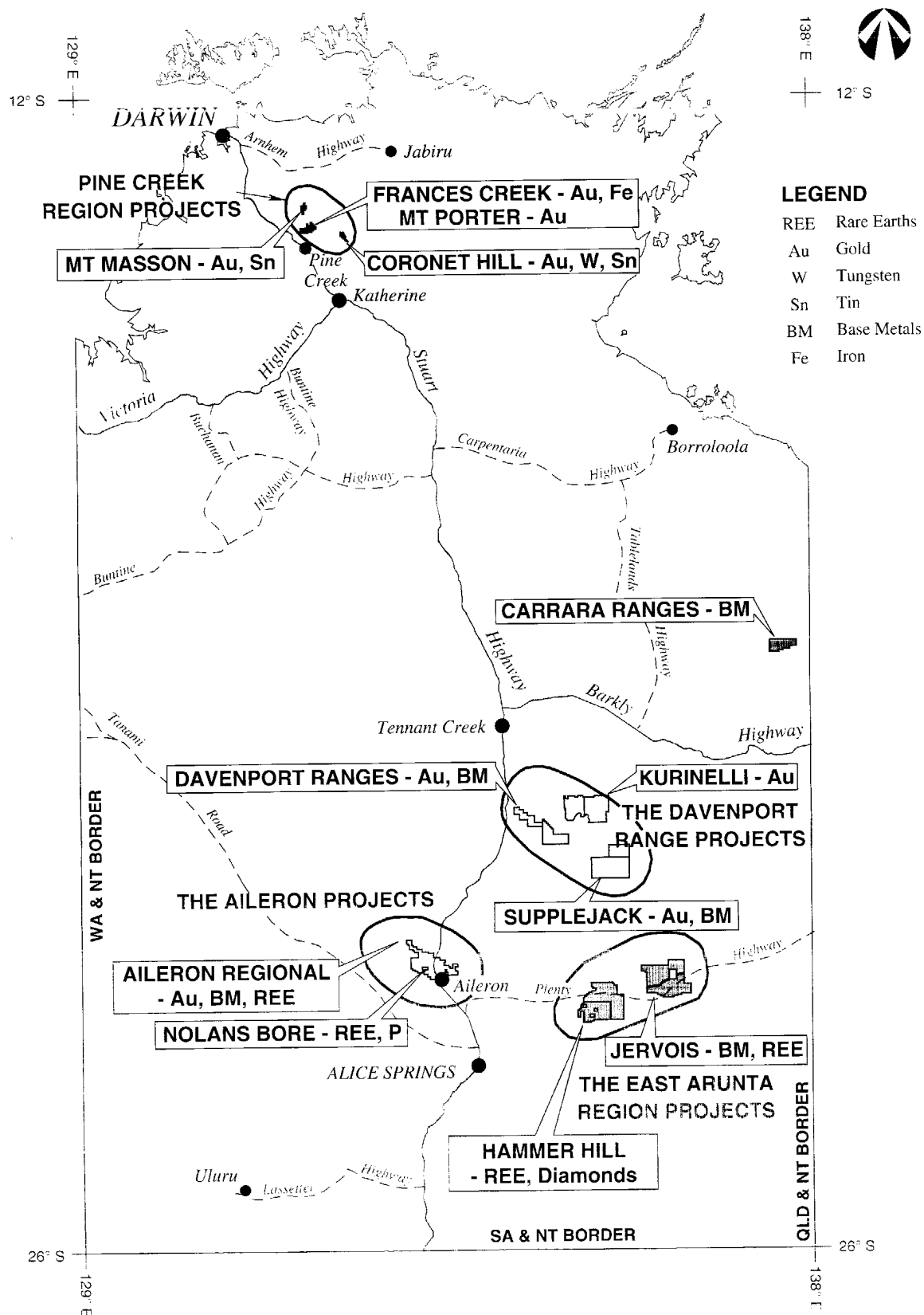
A copy of this Prospectus can be downloaded from the web site of the Company at:

www.arafuraresources.com.au

but, there is no facility for online applications. The online copy of this Prospectus does not include an Application Form.

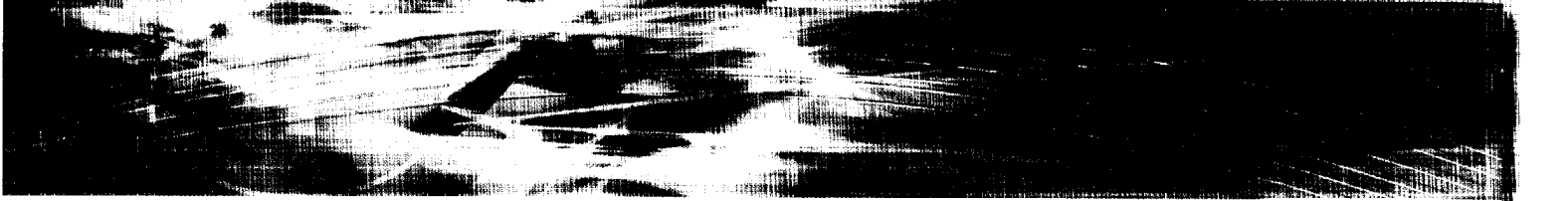
The Corporations Law prohibits any person distributing the Application Form, unless it is included in or accompanies a hard copy of the complete and unaltered version of this Prospectus. Any person may obtain a hard copy of this Prospectus free of charge by contacting the Company.

PROJECT LOCATIONS AND TARGET COMMODITIES



Investment Highlights

- Raising \$3.5 million by the issue of 17.5 million shares at \$0.20 with a 1 for 2 free Option.
- A portfolio of **advanced exploration projects** in the Northern Territory.
- The **Mt Porter** gold project in the Pine Creek district requires minimal work to progress to production:
 - Established resource of 215,000t at 3.9 g/t gold
 - Pit design and associated technical work partly completed
 - Proximity to operating gold plant facilities
 - Ability to be in production and generating cashflow within 12 months.
- The nearby **Frances Creek** high-grade gold veins may add further ore to the Mt Porter deposit:
 - Over 2400 strike metres of mineralised veins
 - Sections averaging over 15g/t at surface
 - Strong regional exploration potential.
- The highly prospective **Kurinelli Goldfield** in Central Australia, untested by modern exploration.
- **Other exploration projects** throughout the Northern Territory, including:
 - Mt Masson and Coronet Hill in the Pine Creek region (gold)
 - Hammer Hill and Jervois in the eastern Arunta region (gold, rare earths, copper)
 - Carrara Range in the eastern Northern Territory (base metals – Anglo American JV).
- The **Frances Creek** iron ore deposits.
- The **Nolans Bore** high-grade and potentially large rare earth/phosphate deposit in Central Australia.
 - 3.8Mt of 4.0% rare earth oxide and 17.5% phosphate inferred resource
 - Ideal NPK fertiliser feed
 - Interest from major world producer of NPK fertiliser.
- A **Board and Management** well experienced in exploration and mine development in Australia, including the Northern Territory.
- Over **\$1 million of equity cash** raised already, most of which has been spent on exploration projects since 1998.



Section 1 ▲ Letter from the Chairman

Dear Investor,

The Board of Arafura Resources NL is pleased to offer you the opportunity to subscribe for this initial public offer of its Shares.

Investment in Arafura is much more than an investment in promising exploration programmes. It is the opportunity to participate in advanced, high quality projects managed by experienced mining industry professionals.

Most successful investments are a matter of timing. Arafura represents such a timing opportunity with its advanced gold and rare earth projects. After many years, gold has recovered much of its lost lustre and is regaining its long term role as a store of value. Arafura also offers participation in a fast growing industry, rare earth metals, critical ingredients in our advanced technology oriented economy.

Arafura's gold projects are all located in the Northern Territory, probably the most underrated gold province in Australia. They provide a full spectrum of opportunities from the highly prospective grass roots play at Kurinelli in Central Australia, the high grade outcropping quartz veins at Frances Creek and the defined medium grade resource at Mt Porter. Using the funds raised from this issue, Arafura will be expediting the evaluation programme with the objective of becoming a gold producer at Mt Porter in the near term. This will be helped by the close proximity of all weather roads and under capacity processing plants. However the most promising gold prospect is Frances Creek, where high grade quartz veins with visible gold were missed by the prospectors of an earlier age and remain un-mined. These veins will be the subject of an intensive geological mapping and drilling programme with the objective of defining a high grade reserve that could be developed as an open pit mine within 12 months.

Arafura's other objective is to become a profitable mid-sized producer of rare earth products and phosphate delivering value to its shareholders through capital appreciation and a long term dividend stream.

For many years rare earth metals were chemical oddities but over the last few decades they have changed their status from exotic rare materials to an essential component of many industries. It is no exaggeration when the Japanese refer to rare earths as the "*seeds of high technology*".

Despite their name Rare Earth Elements are not rare but economic deposits are. Arafura is fortunate to have such

a deposit at Nolans Bore. This deposit has the potential to underpin a long term mining and processing operation.

Rare Earths are consumed in virtually all growth areas of the economy. Some of their uses are in mobile telephone batteries, computer screens, super magnets and the manufacture of solid state devices. They are making a major contribution to emission reduction through their essential role in motor vehicle catalytic converters and their use as an alloy to produce creep resistant magnesium to reduce motor vehicle weight and emissions. They are truly materials of the new millennium.

The purpose of this share issue is to provide the initial funding for evaluation and development of the gold properties and to undertake the work prior to pre-feasibility study of the rare earth/phosphate project. The Company already has projects where exploration has successfully identified both quantified resources and outstanding follow up targets.

The Board of Arafura has an appropriate blend of resource management, technical expertise, corporate, legal and entrepreneurial skills. Further specialized technical staff will be recruited to manage the ongoing evaluation, development and operations of the Company's advanced projects.

We look forward to your participation in these rewarding ventures.



Peter N Walker

Chairman

Section 2 ▲ Details of this Offer

2.1 The Offer

This Prospectus constitutes an offer by the Company of 17,500,000 Shares for subscription at an issue price of \$0.20c per Share payable in full on application.

The Shares offered by this Prospectus will be issued as fully paid Shares and when issued, will rank equally in all respects with the existing Shares.

For every two (2) Shares applied for and issued, subscribers will receive one (1) Attaching Option for no further consideration. The Option can be converted to a Share at a price of 20 cents at any time prior to 5.00pm on 30 June 2008 and otherwise in accordance with the terms and conditions set out in Section 10.3.3 of this Prospectus.

It is anticipated that the Offer will enable the Company to satisfy the requirements of ASX in relation to the Company's proposed application for admission to the Official List of ASX.

2.2 Purpose of the Issue

The Company is seeking to raise \$3,500,000 with a minimum of \$2,500,000 pursuant to this Offer and it is intended that these funds will be used to explore the Company's mineral tenements, including;

- Further metallurgical and geotechnical studies of Mt Porter Mine for open pit design.
- Surface and drill evaluation of Frances Creek gold veins. Metallurgical and geotechnical studies of feasibility of mining.
- Mine design if results confirm economic deposits.
- Intensive geochemical surveys of Mt Masson and Coronet Hill. RAB and RC drilling of target areas.
- Bulk sampling at Nolans Bore and commence metallurgical evaluation.
- Further resource evaluation of Nolans Bore through ongoing programme of drilling and costeaning. Commence geotechnical studies.

- Continuation of market studies for rare earths and identify potential partners.
- Extensive geologic and geochemical evaluation of Kurinelli. Intensive follow up programme of RAB and RC drilling.
- Geologic mapping and geochemical surveys at Jervois and Hammer Hill. Minor RC and RAB follow up drilling.

The funds raised by the issue will be applied as follows:

	Assuming Maximum Subscription	Assuming Minimum Subscription
Exploration expenditure (budget for first two years)	\$2,015,000	\$1,525,000
Administration	\$ 934,000	\$ 590,000
Expenses of the issue	\$ 385,000	\$ 385,000
Unallocated working capital	\$ 166,000	
TOTAL	\$3,500,000	\$2,500,000

Upon full subscription of the Offer, the Company will have sufficient working capital to carry out its stated objectives.

2.3 Indicative Timetable

Offer opens 15 September 2003

Offer closes 15 October 2003

Holding statements expected to be dispatched 20 October 2003

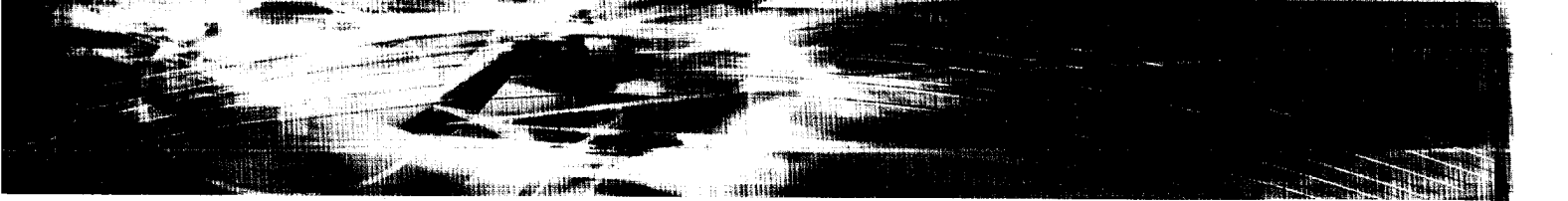
Trading of Shares on ASX expected to commence 22 October 2003

Note: The Directors reserve the right to close the Offer at any time or extend the Closing Date without prior notice.

2.4 Applications for shares

An Application for Shares under this Prospectus can be made on the Application Form enclosed with this Prospectus.

Applications must be for a minimum of 10,000 Shares (\$2,000) and thereafter in multiples of 1,000 Shares.



Section 2 Details of this Offer

Cheques should be in Australian currency and made payable to "Arafura Resources NL Share Offer Account" and crossed "not negotiable".

Completed Application Forms and cheque(s) must be delivered or mailed in accordance with the instructions set out on the reverse side of the Application Form.

Applications must be received by 5.00 pm Perth time on the Closing Date (subject to the right of the Directors to close the Offer earlier or extend the Closing Date without notice).

2.5 Allotments

Allotments of Shares will be made as soon as practicable after the Closing Date. The Company reserves the right to allot Shares in full for any application or to allot any lesser number, and to decline any application received.

Where the number of Shares allotted is less than the number applied for, the surplus application monies will be returned by cheque within 7 Business Days after the Closing Date. Where no allotment is made, the amount tendered on application with the relevant Application Form will be returned in full by cheque within 7 Business Days after the Closing Date. Interest will not be paid on monies refunded.

A completed and lodged Application Form, together with a cheque for the application monies, constitutes a binding and irrevocable application for the number of Shares specified in the Application Form. The Application Form does not need to be signed to be a binding application.

If the Application Form is not completed correctly or if the accompanying payment of the application monies is for the wrong amount, it may still be treated as a valid application. The Directors' have complete discretion to accept or reject any Application forms received. However, an applicant will not be treated as having applied for more Shares than is indicated by the amount of the cheque for the application monies.

2.6 Minimum Subscription

The minimum subscription to the Offer is \$2,500,000.

In accordance with section 723 of the Corporations Law, no Shares will be allotted by the Company until the minimum subscription has been subscribed.

2.7 Sponsoring Broker details

Baker Young Stockbrokers Limited, a participating organisation of the ASX, have agreed to be the Sponsoring Broker of the Issue. Details of the agreement between the Company and Baker Young are described in Section 9 of this Prospectus. The issue is not underwritten.

2.8 ASX Listing for the Shares and Options being offered

Application will be made to ASX within 7 days after the date of issue of this Prospectus for the Company to be admitted to the Official List and for the Shares to be offered by this Prospectus to be granted Official Quotation by ASX. Certain of the existing Shares and Options will be subject to escrow periods. Please refer to Section 2.13 for further details.

The Directors will not allot any securities offered for subscription pursuant to this Prospectus unless and until ASX grants approval for the Company to be admitted to the Official List. The fact that ASX may admit the Company to the Official List is not to be taken in any way as an indication by ASX of the merits of the Company or the Shares offered by this Prospectus. ASX takes no responsibility for the contents of this Prospectus, including any expert's reports which it may contain.

Application monies will be held in a separate bank account in trust for the applicants until allotment occurs. Interest will not be paid on any monies held.

If permission is not granted for the Company to be admitted to the Official List and for the Official Quotation by ASX of the Shares before the end of 3 months after the date of issue of this Prospectus, any allotment or issue of secu-

Section 2 ▲ Details of this Offer

rities pursuant to this Prospectus will be void and all monies received pursuant to the Prospectus will be repaid without interest.

2.9 Non-resident Investors

It is the responsibility of non-resident investors to obtain all necessary approvals for the allotment and issue to them of securities pursuant to this Prospectus.

This Prospectus does not constitute an offer in any place in which, or to any person to whom, it would be unlawful to make such an offer.

2.10 CHESS System

The Company will apply to be admitted to participate in the Clearing House Electronic Sub-register System (CHESS) in accordance with the Listing Rules and the Securities Clearing House Business Rules. On admission to CHESS, the Company will operate an electronic issuer-sponsored sub-register and an electronic CHESS sub-register. The two sub-registers together will make up the Company's principal register of securities.

The Company will not issue certificates to investors. Instead, investors who elect to hold their securities on the issuer-sponsored sub-register will be provided with a holding statement (similar to a bank account statement) which sets out the number of securities allotted to each investor under this Prospectus. For investors that elect to hold their securities on the CHESS sub-register, the Company will, on allotment, issue an advice to investors that sets out the number of securities allotted to the investor under this Prospectus and at the end of the month following the allotment, CHESS (acting on behalf of the Company) will provide investors with a holding statement that confirms the number of securities allotted.

A holding statement (whether issued by CHESS or the Company) will also provide details of an investor's Holding Identification Number (HIN) in the case of a holding on the CHESS sub-register or Shareholder Reference Number in the case of a holding on the issuer sponsored sub-regis-

ter. Following distribution of these initial holding statements to all investors, a holding statement will only routinely be provided to an investor at the end of any subsequent month during which the balance of the investor's holding of securities changes.

Existing shareholders will, following Official Quotation of existing Shares by ASX (other than Securities designated by ASX as restricted securities) receive holding statements in the Company to replace the share certificates currently held by them.

2.11 Capital Structure

At the date of this Prospectus, the issued capital of the Company is 26,457,508 Shares.

The capital structure of the Company at the completion of the Offer (assuming maximum subscription) will be as follows:

	No of Shares
Shares on issue at date of this Prospectus	26,457,508
Shares being offered by this Prospectus	17,500,000
Total Shares on issue following the Offer	43,957,508

	No of Options
Options on issue at date of this Prospectus	17,100,000
Options being offered by this Prospectus	8,750,000
Total possible Options on issue following the Offer	25,850,000

2.12 Investment Considerations

An investment in Arafura should be considered speculative given the nature of Arafura's assets, their stage of development and variability of the gold price. A discussion of the risks which should be considered in connection with an investment in Arafura is contained in Section 5.

2.13 Escrowed Shares and Options

The ASX classify certain Shares and Options on issue at the date of this Prospectus as being subject to the restricted securities provisions of the Listing Rules. Accordingly, a proportion of these Shares and Options, determined by the ASX, are required to be held in escrow. Further Shares and Options may be held in escrow on a voluntary basis.

Section 3 ▲ Profile of Directors and Key Personnel



Peter Walker — Ian Kowalick — Mick Muir — Marcus Rose

Peter N Walker — Non-Executive Chairman
BSc, FAusIMM, FAICD

Peter is a graduate in geology and mathematics who worked internationally as an exploration geologist and manager for 19 years. He was managing director of Dominion Mining Ltd from 1985 to 1994. During this time Dominion grew from a small explorer to the third largest gold producer in Australia. He has held other directorships in the resource and associated industries, the most recent being chairman of Anvil Mining NL.

Irvin G (Mick) Muir — Managing Director
BA(Econ)

Mick is a Western Australian businessman with 30 years in the mining industry. He is an economics graduate and has worked in the securities industry and for the Western Australian Chamber of Mines in Kalgoorlie. He was previously managing director of Mt Martin Goldmines NL and Noble Resources NL.

Marcus H Rose — Non-Executive Director
MBA, ASIA, AREI, FAICD

Marcus is the managing director of the Concept Financial Services Group of companies. He has specialist skills in technical and security analysis and has over 25 years professional experience in the equity, capital and property markets. He is currently on the board of Australian Energy Limited, Concept Investment Management Limited, the Carlton Football Club and a number of private companies as well as being an advisory board member to Superannuation and Charitable Trusts.

Ian J Kowalick — Non-Executive Director
BSc (Hons), BEc

Ian has qualifications in economics and finance, science and engineering. In the private sector he has worked in technical and project consulting, economic and business analysis for resource companies, banking and investment. From 1995 to 2000 he held the most senior management position in the South Australian public sector. He understands government relations and the management of the regulatory and planning requirements of government. He is currently a director and consultant on business strategy and development and chairman of Playford Capital Ltd and the State Opera of South Australia.

John Goulevitch — Exploration Manager
BSc (Hons), MSc, FAusIMM, MMICA

John is a Darwin based geologist with over 32 years professional experience in mining and exploration, mostly in northern Australia. He was general manager of Gold Copper Exploration Ltd from 1982 to 1986 and has spent the last 17 years as principal of Exploremin Pty Ltd, an independent geological consulting company.

Ross J Arancini — Company Secretary
BBus, CA FTIA

Ross is a Chartered Accountant specialising in the provision of corporate, taxation and company secretarial services to private and listed entities.

Ross is currently company secretary of Kanowna Consolidated Gold Mines Ltd and Heron Resources Ltd.

Section 4 ▲ The Company and its Projects

INTRODUCTION

Arafura is a mineral exploration and resource development company with some 12,000 sq km of tenements in the Northern Territory.

Arafura commenced acquiring mineral tenements with the purchase of the Frances Creek mine in 1984. The criteria used in applying for land, were that a large area be available in a geologically prospective region with known mineralisation and that the area have had little modern exploration. The portfolio was assembled to cover areas with distinct, company making targets. Tenements are generally grouped on a regional geographic basis, for ease of planning exploration programmes and the possibility of attracting joint venture participation by major mining companies.

Since acquiring the tenements, Arafura has carried out significant geological and development work on the granted areas and successfully negotiated with relevant Native Title Councils for access agreements on a number of application areas. In excess of \$1,000,000 has been raised from seed capital investors, with over \$500,000 spent on exploration and evaluation on the Company's properties over the last 5 years.

The Directors of Arafura have set short, medium and long term goals for the development of all projects with the objective of reaching commercial production within 12 months at Mt Porter, 18 months at Frances Creek and four years at Nolans Bore.

This Prospectus provides legal, corporate and technical information on Arafura, its prime assets, the high grade Frances Creek gold deposit, the medium grade Mt Porter gold deposit, the Nolans Bore Rare Earth Oxide-phosphate deposit and other exploration projects.

PROJECT DESCRIPTIONS

Arafura owns four groups of tenements located in the Northern Territory:

- the Pine Creek gold projects including Frances Creek and Mt Porter;
- the Central Australian gold and base metal projects including Kurinelli and Jervois;
- the Nolans Bore Rare Earth Oxide-phosphate deposit, and relatively nearby Hammer Hill and Quartz Hill REO projects in Central Australia;
- the Carrara Range base metal project.

Both the Mt Porter and Nolans Bore projects have defined resources, with the remainder of the projects at an early stage of exploration.

OBJECTIVES and STRATEGY

The Company has the objective of adding shareholder

value by successfully developing its known mineral projects to profitable mining enterprises and by discovering new prospects using modern exploration techniques.

The short term will see the Company complete the evaluation at Mt Porter with the objectives of developing it within 12 months. It will also undertake a speedy but thorough assessment of the high grade Frances Creek gold project with the objective of achieving commercial gold production in a 12-18 month period. At the same time the Company will commence further geological and preliminary metallurgical assessment of the Nolans Bore REO/phosphate resource and undertake first pass evaluation of Arafura's other exploration tenements.

In the medium term, if our evaluation is successful, we plan early development of Frances Creek. This may allow the Company to consider an early dividend payment to investors and provide additional capital for further development and exploration on other areas.

The results from the early programme of work at Nolans Bore (some of which will be undertaken at Norsk Hydro facilities in Norway) will be used in deciding future strategic development plans.

In the medium term, one of Arafura's major activities will be to negotiate long term alliances with end user/processors of REO and phosphate. The Company is aware that for a successful, long-term and profitable rare earth/phosphate mining operation, off-take agreements and joint venture financing packages would be necessary. It is likely that these potential partners will work with Arafura in preliminary metallurgical and engineering studies with the objective of planning and designing an appropriate treatment facility.

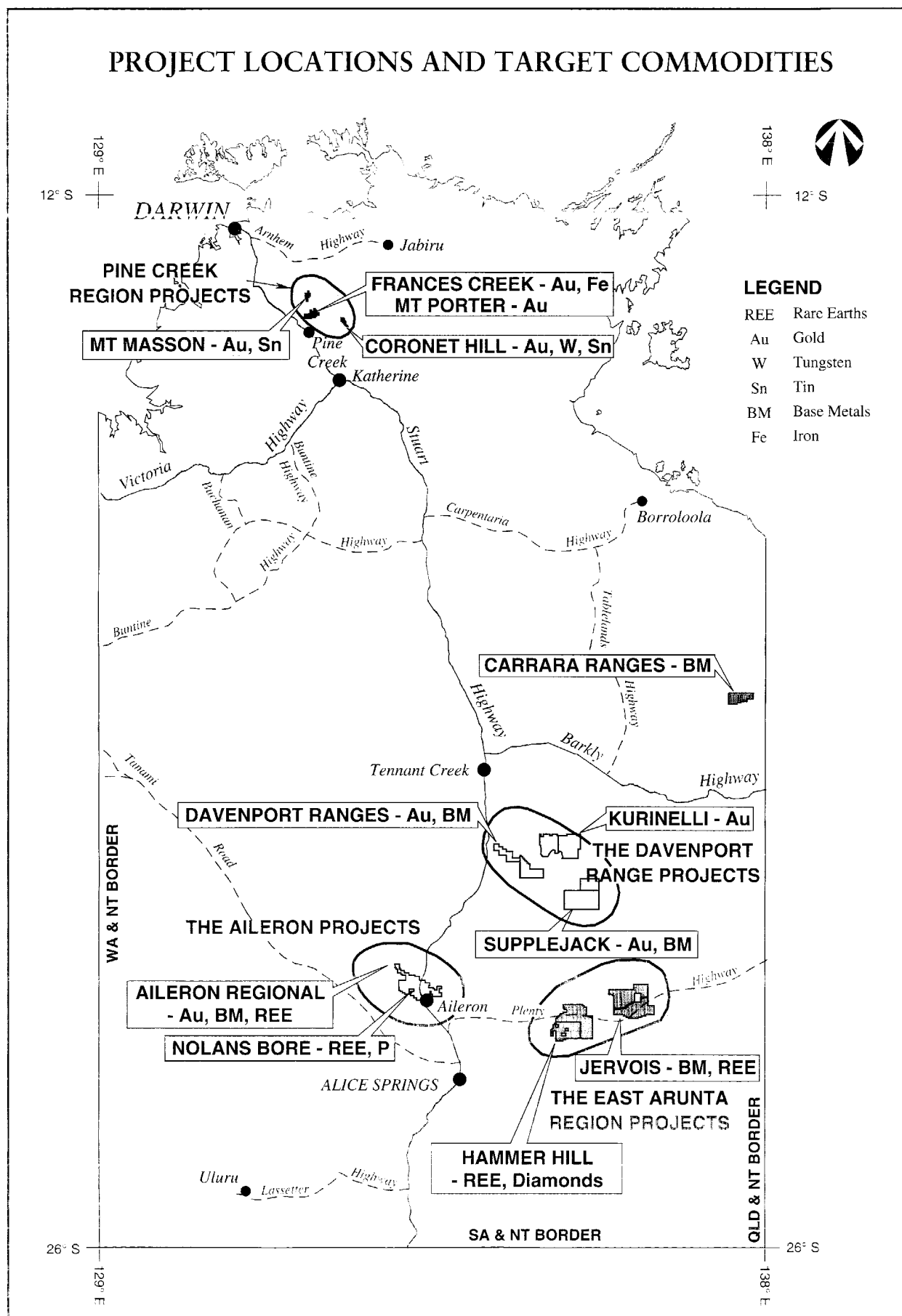
It is fundamental that Arafura will limit substantial financial exposure to the low capital mining and mineral dressing phase of the project with the much larger capital requirements for the downstream facilities being provided by the alliance partners.

During this period the Company will continue to undertake geological and metallurgical examination and mining development of other projects and new discoveries.

First pass results on the less explored areas will be used to determine if further expenditure is justified. This will be carried out either by sole funding or by joint ventures with suitable partners. The Company considers (a view shared by the independent geologist) that there is excellent potential for commercial gold discovery at the under explored Kurinelli goldfield and at the Coronet Hill and Mt Masson tenements as well as base and other metal discoveries at other locations.

The longer term objective is for Arafura to join the ranks

Section 4 The Company and its Projects



Section 4 ▲ The Company and its Projects

of mid-size profitable mining companies through the successful development of its known resources and discovery of new deposits.

SUMMARY OF MINERAL PROJECTS

GOLD PROJECTS

PINE CREEK DISTRICT, NT

MOUNT PORTER

The Mount Porter deposit is located approximately 20 km north of the town of Pine Creek and within easy trucking distance of underutilised gold processing plants at Union Reefs and Brocks Creek. It has been extensively sampled and drilled and a medium grade gold resource defined.

Resources/Reserves

Pine Creek Goldfields Ltd (PCG) completed orebody modelling of Mount Porter early in 1994. They estimated that indicated resources at the prospect are:

Cut-off 1.5 g/t Au - 240-250,000 tonnes at 3.6-3.8 g/t Au

Cut-off 1.7 g/t Au - 215,000 tonnes at 3.9 g/t Au

Cut-off 2.0 g/t Au - 176,000 tonnes at 4.4 g/t Au

Optimisation studies were conducted using the 1.7 g/t and 2.0 g/t model. In the 1.7 g/t case the optimum pit contained 172,000 tonnes at 4.1 g/t Au.

Development

Extensive drilling by Renison Goldfields Consolidated Ltd (Renison) has outlined a substantial resource using geo-statistical methods. This has been the subject of several preliminary pit designs.

These vary substantially with a range of parameters including cut off grade, metallurgical recovery, mining and treatment costs.

The highest cash flow from these designs was A\$2,300,000 based on a gold price of A\$465 /ounce and metallurgical recovery at 65%.

Use of current gold prices and higher recoveries, which have been indicated to be as high as 90% in more recent test work, will increase cash flow from the deposit, although this will be partly offset by toll milling charges which will be higher than the in house costs used by Renison who had an operating plant 15 km to the south.

This data all indicates that Mt Porter can be developed as an economic mine. However a small programme of drilling is required to confirm continuity of mineralisation and define geotechnical characteristics for use in pit design. Further metallurgical testing is required to confirm or even increase the higher recoveries which should further improve the economics of mining the deposit. Both these test programmes will be commenced as soon as the capital raising is complete.

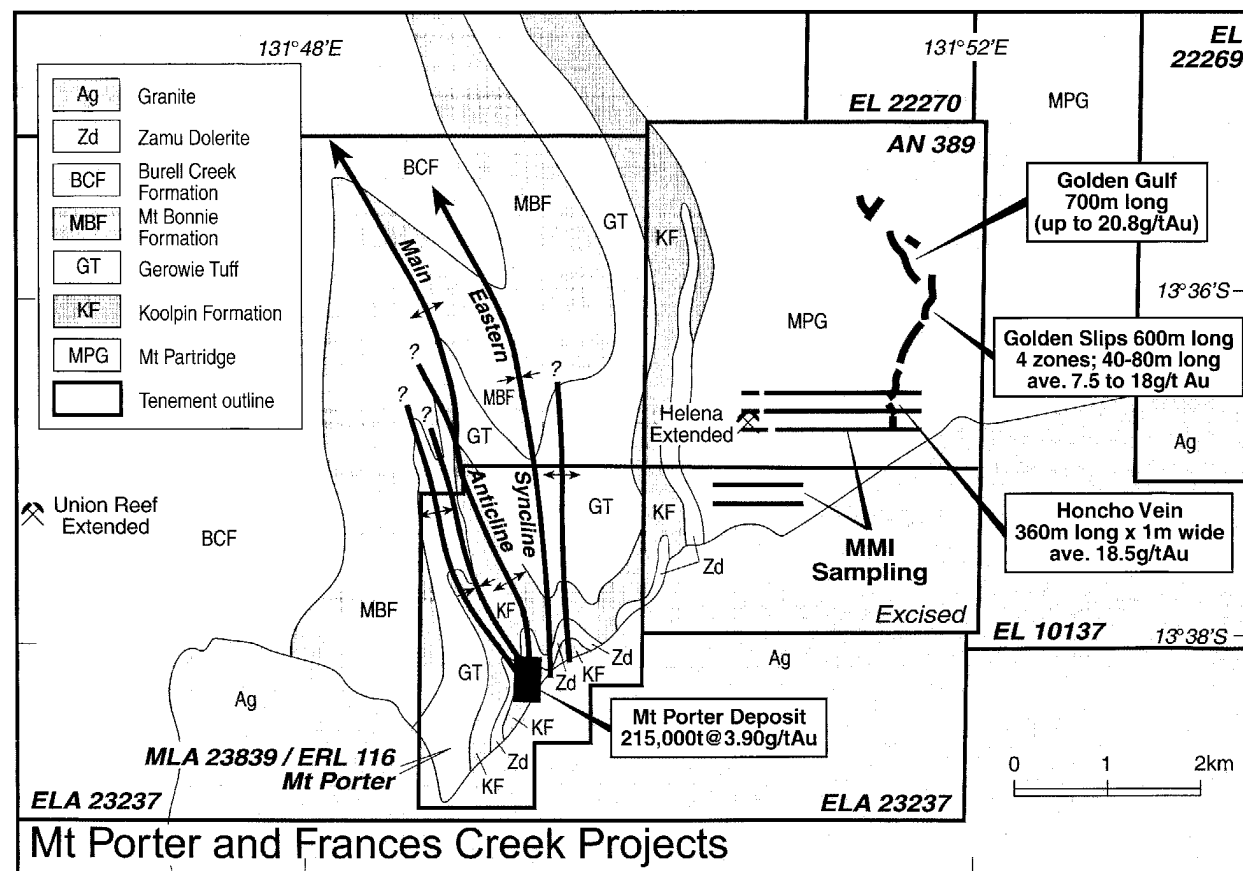


Figure 2

Section 4 The Company and its Projects

A mineral lease over the deposit has been applied for to initiate the development process.

Geology

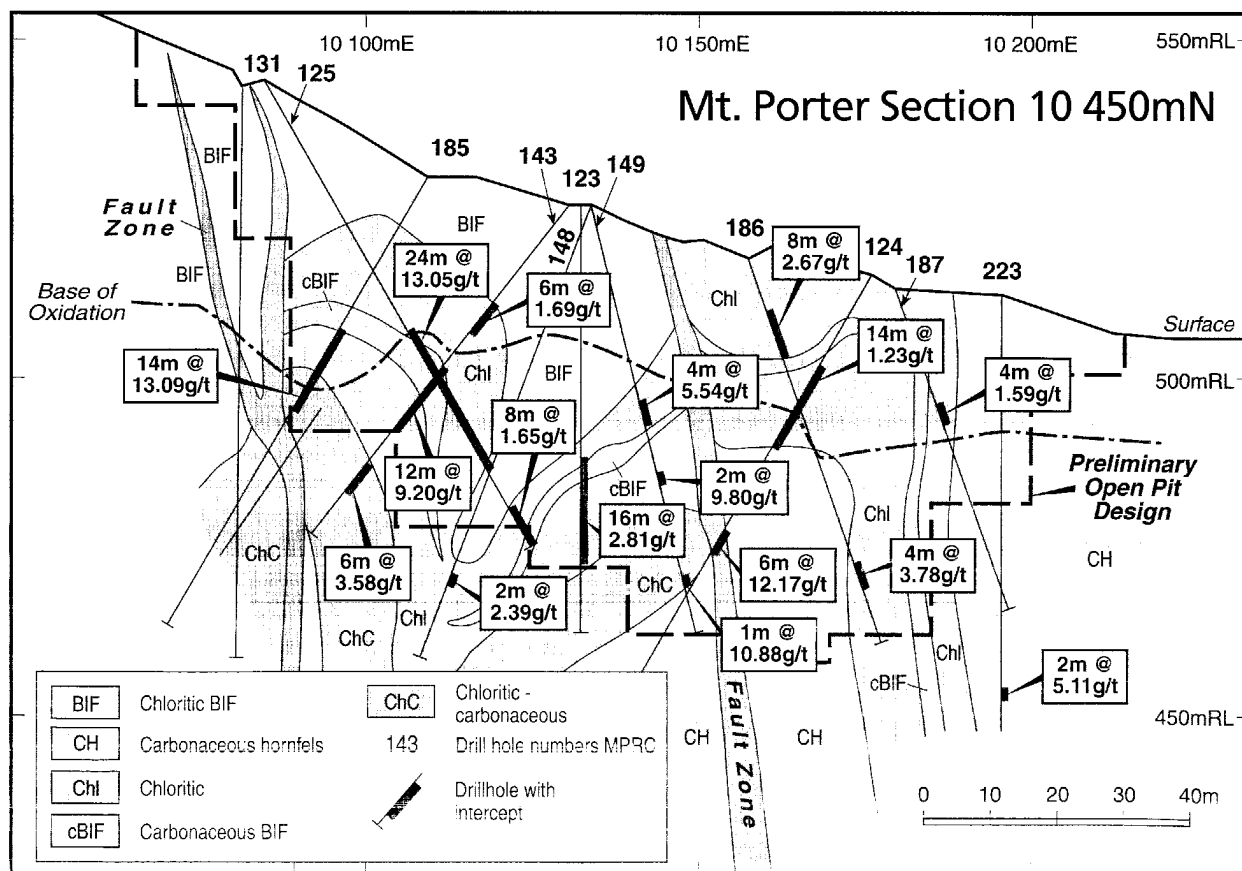
Exploration by Renison, PCG between 1985-1994 and by Homestake Gold of Australia Limited (Homestake) in 1996-1997 has established that gold mineralisation at Mount Porter is hosted by sedimentary rocks which belong to the Koolpin Formation of the Palaeoproterozoic South Alligator Group. Broadly, the Koolpin Formation is characterised by sulphidic and dolomitic carbonaceous shales and siltstones but the middle Koolpin Formation also includes chloritic-sulphidic laminated cherty "shales", with ubiquitous chert nodules. These units are widely distributed throughout the Pine Creek Geosyncline, and frequently contain elevated metal values, including gold.

Elsewhere in the region, gold mineralisation similar to that in the Middle Koolpin Formation at Mount Porter has been the subject of considerable exploration and scientific study in the past 20 years. This was concentrated on the Cosmo Howley (15.56 tonnes of gold produced) and Golden Dyke (0.78 tonnes of gold produced) deposits. Cosmo Howley is located about 30 kilometres northwest of Mount Porter. The primary structure which controls gold mineralisation through the Mount Porter prospect is the Mount Porter Anticline. This is a prominent and persistent local structure

which extends over several kilometres in a north-northwest direction. The "10400N Zone" at Mount Porter, where the identified resources are located is situated in a complex synformal zone bounded by major axial plane and cross-cutting faults on the crest of the Mount Porter Anticline.

The Mount Porter prospect is a predominantly strata bound gold deposit in silicate facies iron formation in the middle Koolpin Formation of the South Alligator Group. It is geologically similar to other deposits in the middle Koolpin Formation, such as Cosmo Howley and Golden Dyke.

While the potential to locate extensions of the "10400N Zone" appears to be limited, and deep drilling conducted by Homestake along the extent of the Mount Porter Anticline failed to identify a major gold resource, exploration completed by both PCG and Homestake clearly identified an extensive gold mineralised system at Mount Porter. Considerable scope remains to identify one or more additional zones of mineralisation similar in size and gold tenor to the "10400N Zone" elsewhere within the tenement. For example, 0.5-1km to the south-west of the "10400N Zone", 19 out of 61 drill holes and 5 out of 6 trenches had significant intersections of gold mineralisation (>1m @ 1 g/t Au). These included the two best intersections in trenches on the prospect. In addition, of the eighteen Reverse



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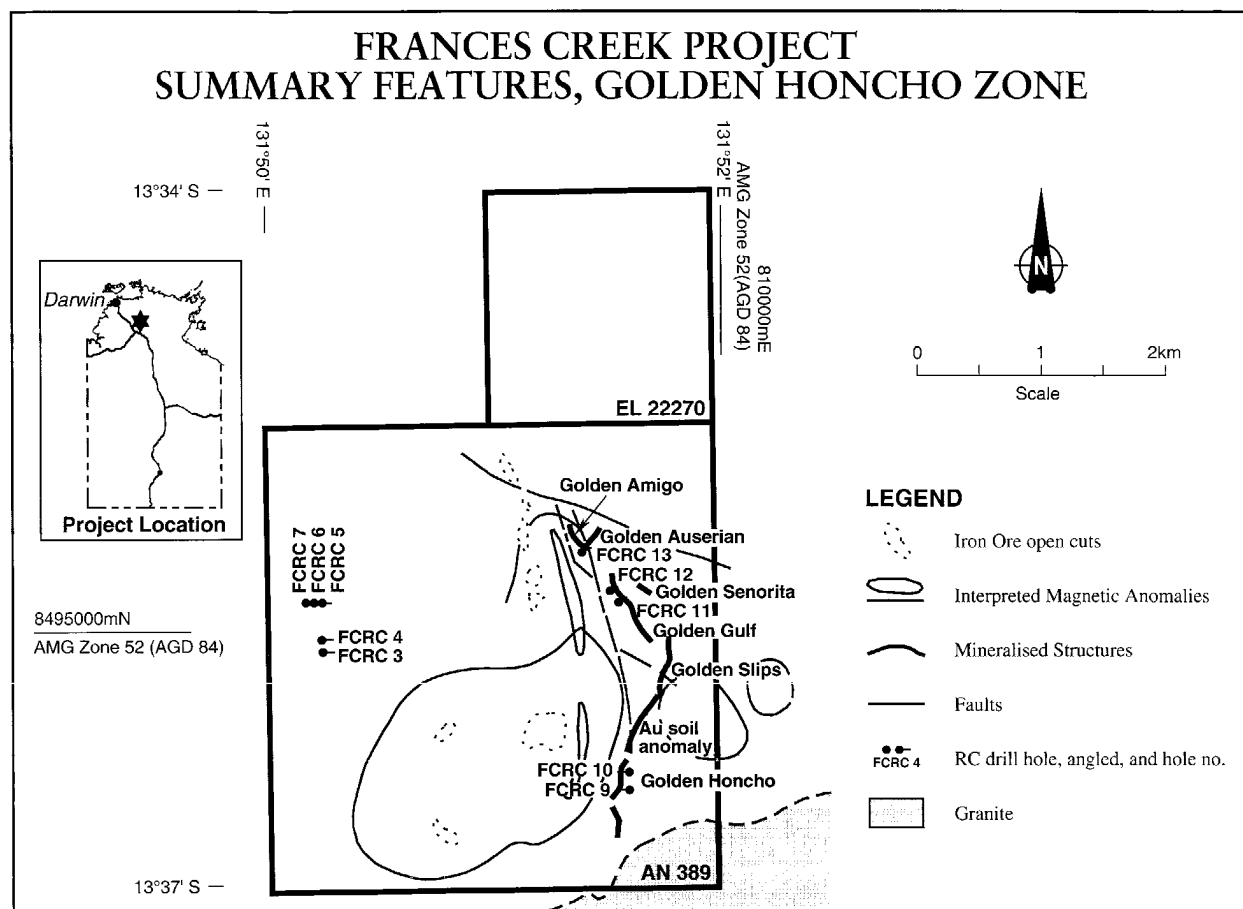


Figure 4

Circulation (RC) holes that have been drilled into the "10800N Zone", nine had significant gold intersections, including two of the top ten for the project (4m @ 43.05 g/t in MPRC082, and 8m @ 8.38 g/t open in MPRC089).

FRANCES CREEK GOLD PROJECTS

Frances Creek is probably the most prospective of the Company's four Pine Creek projects and is located 25 km north of the town of Pine Creek and approximately 200 km south-south east of Darwin. It is also within easy trucking distance of underutilised gold processing plants at Union Reefs and Brocks Creek.

Frances Creek is geologically situated in the Pine Creek inlier, which hosts most of the well known Northern Territory gold mines. Gold production from the Pine Creek region totalled over 115 tonnes (Northern Territory Mines Department) up to the end of 1998.

The Frances Creek gold deposits are a series of high grade quartz veins that outcrop over a strike length of 1400 metres. Other lower grade quartz veins extend the strike length of the mineralised zone to 2500 metres. The high grades of the veins offer the opportunity for early profitable production.

The principal veins, Golden Honcho, Golden Slips North and South, all contain visible gold in outcrops of brecciat-

ed and ferruginous quartz. The visible gold has been confirmed by sampling and assaying of the veins that show gold grades up to 54 g/t. The veins were sampled by rock chip samples over the width of the reefs at 50 metre intervals along strike. The results were:

VEIN	AVERAGE GRADE G/T	LENGTH OF VEIN (m)	AVERAGE WIDTH (m)
GOLDEN HONCHO	17.6	420	0.96
GOLDEN SLIPS NORTH	18.2	180	0.5-1.0
GOLDEN SLIPS SOUTH	7.6	225	1.5-2.0

The veins were not discovered until 1997 and although they outcrop prominently, there is no evidence of pitting, excavation or previous sampling. Such a recent surface discovery is highly unusual anywhere in Australia and probably happened because the veins occur in a stratigraphic unit not previously considered favourable for the occurrence of gold deposits. As a result the area appears not to have attracted the attention of prospectors.

The discovery of the veins, not only provides an immediate target for exploration and production but also indicates that there is high potential for further discovery in the surrounding area. Arafura holds extensive exploration tenements in the area.

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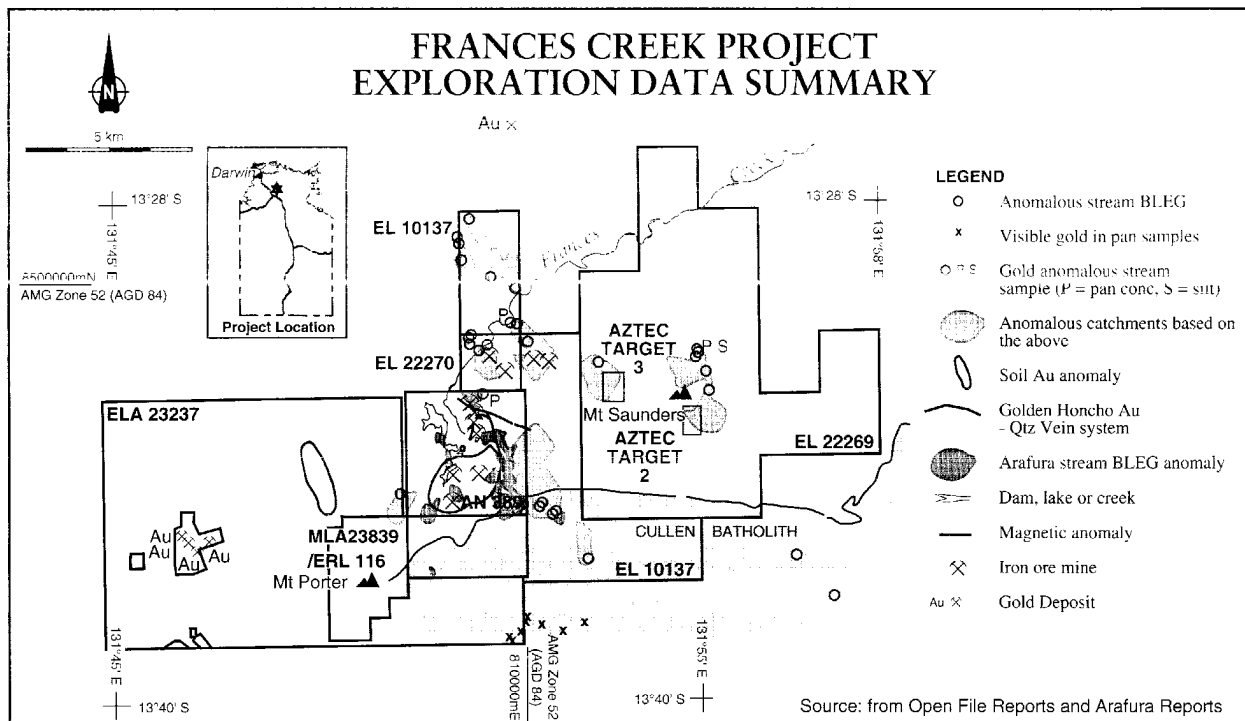


Figure 5

A limited amount of exploration was carried out following the discovery but the objective of the explorer (Homestake Gold Australia Ltd) was to discover very large (+ 1 million ounce) gold deposits and little attention was paid to the shallow portions of the high grade veins. The importance of these deposits to Arafura, is not only the high grades but also the occurrence of the veins along ridge crests which makes them amenable to low cost open pit mining with low stripping ratios. The potential for low cost and high margin gold production in the short term is complemented by the opportunity for long term high grade production in underground mines.

Arafura plans to drill below the Golden Honcho outcrop at shallower depths.

This drilling will provide information on:

- Grades and widths of mineralisation.
- The reef continuity laterally and at depth.
- The inclination of the reefs.
- Possibility of supergene enrichment at the water table.
- Mineralisation adjacent to the reefs in the footwall and hanging wall.

Depending on results, follow up drilling to deeper levels and wider spacing will be undertaken on Golden Honcho and initial shallow drilling on Golden Slips. This will be followed by resource estimation, mine and treatment planning.

Drilling the Frances Creek veins has the highest priority in Arafura's planning and this rating is confirmed by the

Arafura Resources NL Prospectus

independent geologist who considers that this project is a corner stone of the Company's project portfolio. He stated that *"The Golden Honcho system is potentially of major importance to Arafura. Given the rich surface gold grades, and the length of mineralized system thus far discovered, it is difficult to perceive that there would not be future mining and gold production at some scale"*.

Whilst the Golden Honcho system is the most obvious target for Arafura, the tenement area includes portions of the highly prospective Koolpin formation, the host of the Cosmo Howley mine which produced 15 tonnes of gold and of the Mt Porter deposit. Early exploration results give encouragement for the discovery of skarn and replacement body mineralisation

MT MASSON

Mt Masson is north of Frances Creek and has a history of small mining operations for tin, with silver and gold values at the Jessops, Billy Can, Big Drum, Big Julie and Touheys North mines. Tin occurs in narrow quartz veins with variable gold values. Sampling of 8 veins at the Big Julie prospect by the Northern Territory Geological Survey returned average grades of 0.59% Sn and 5.7 g/t Au.

Much of the Mt Masson area was inaccessible to corporate explorers for many years as it was in the Mt Wells Policy Reserve and no Exploration Licences could be granted. Following the removal of this reserve, extensive corporate exploration occurred mostly looking for ore bodies of the Cosmo Howley type in the Koolpin Formation which out-

Section 4 ▲ The Company and its Projects

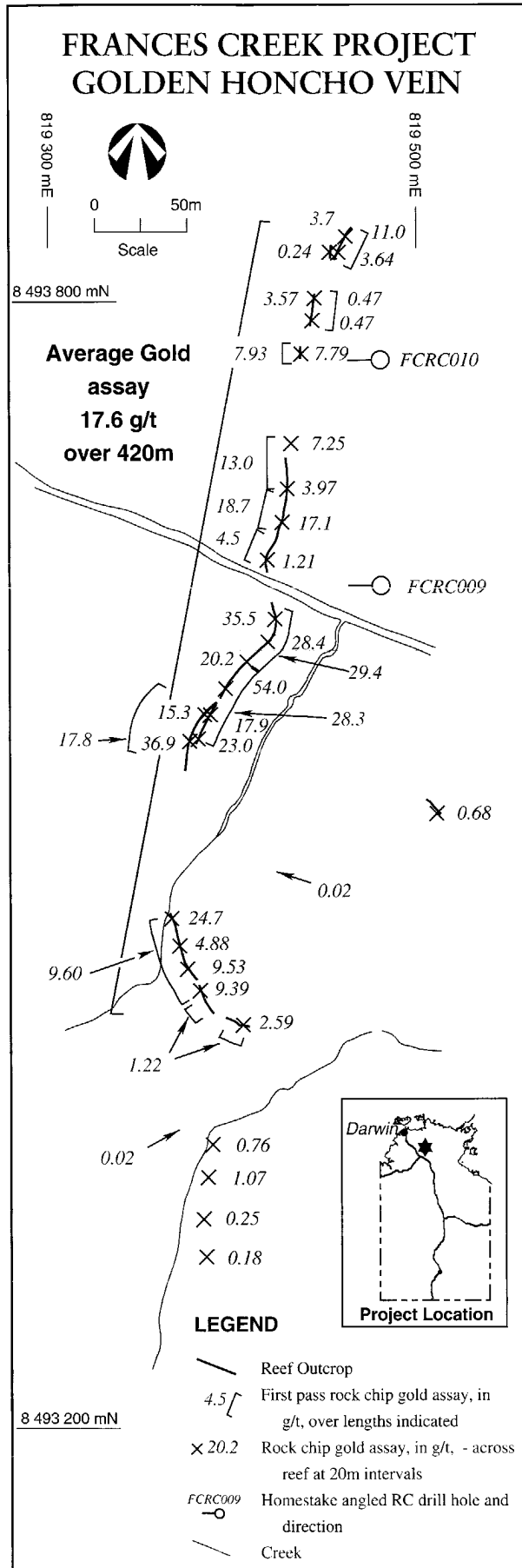


Figure 6

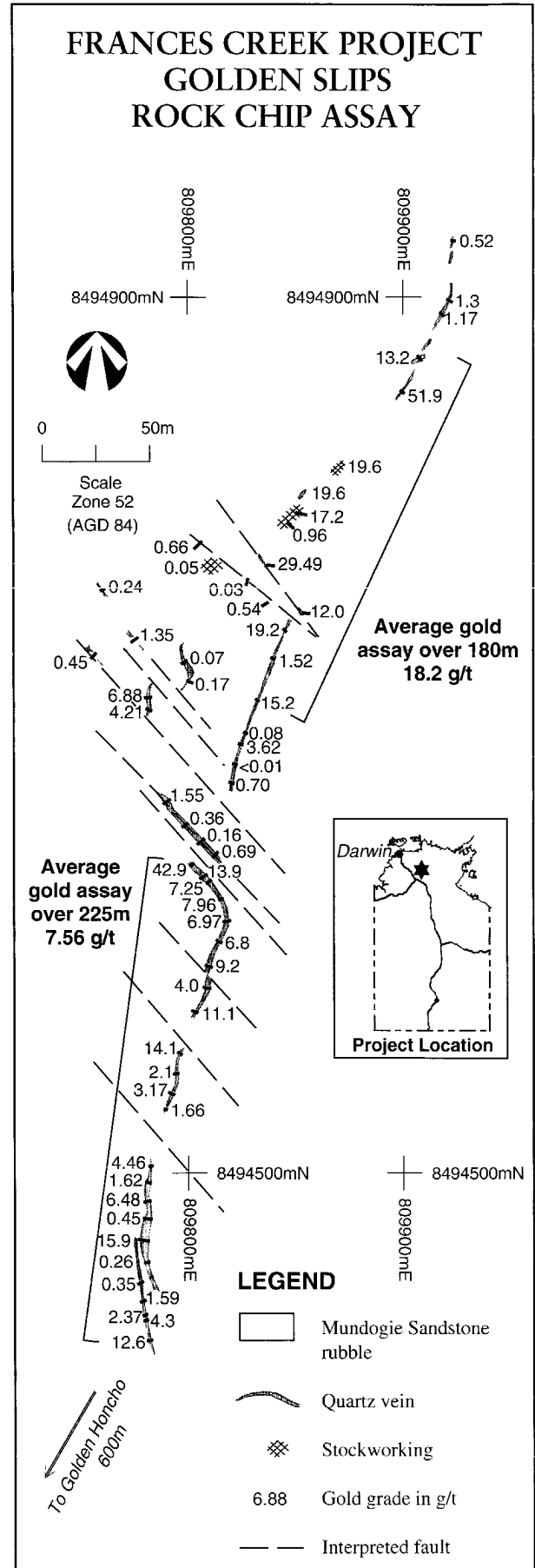


Figure 7

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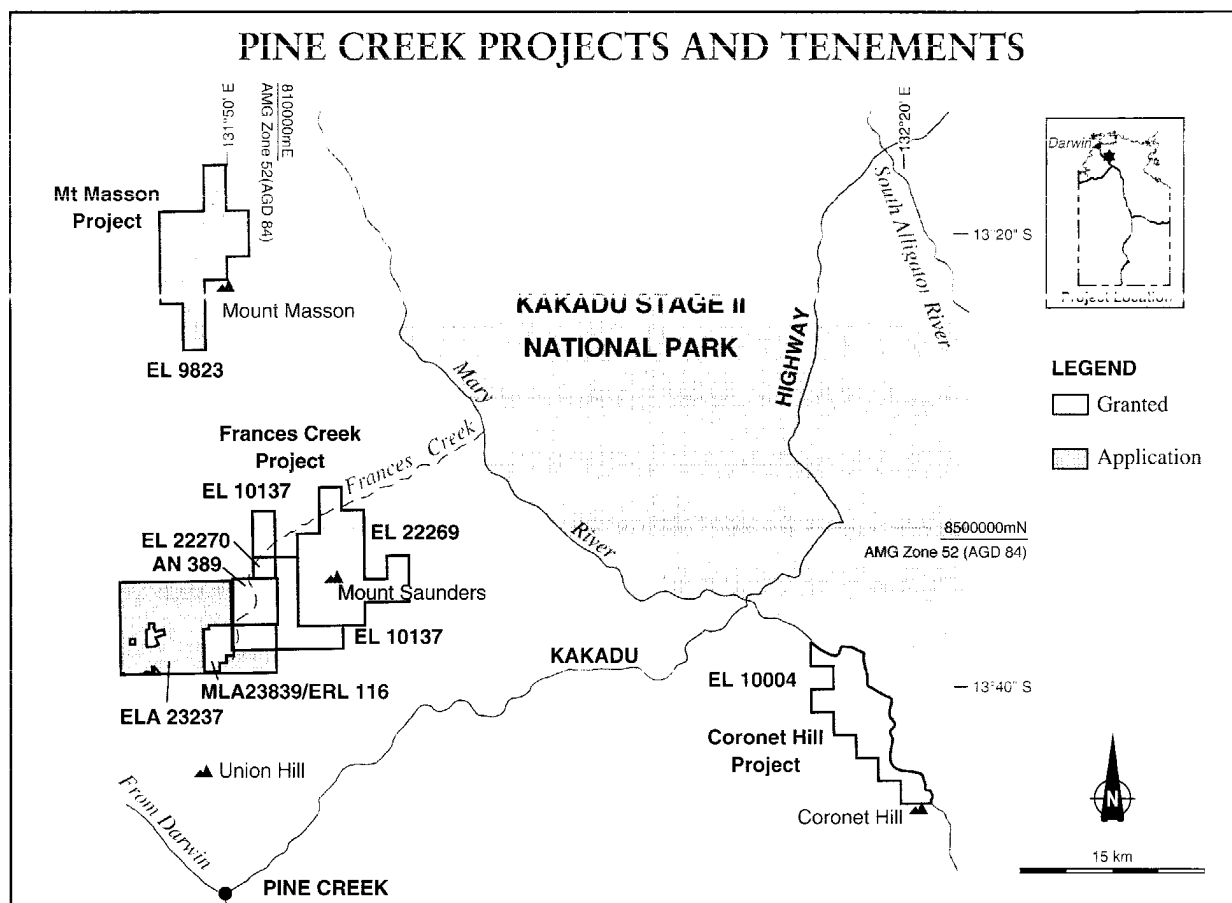


Figure 8

crops in the western part of the area. Extensive Bulk Leach Extractable Gold (BLEG) surveys at a density of one sample per square kilometre were carried out and substantial anomalous zones were identified but were considered too weak to be significant. However they are similar in amplitude to the anomaly that lead to the discovery of the Frances Creek high grade veins. A regional soil survey on a 400 by 25 metre grid also located low order anomalies which were not followed up.

In 1994 the small Tuohy's gold deposit was found and oxidised quartz veins were subsequently mined and trucked to Cosmo Howley for processing.

The geological similarity to Frances Creek, with extensive outcropping clastic sediments of the Mt Partridge Group, combined with the geochemical anomalies, indicate that there is still substantial potential for discovery of Frances Creek type high grade gold deposits. The exploration techniques developed by Arafura personnel should be effective in this area.

CORONET HILL

This project encompasses the old Coronet Hill copper and silver mining field approximately 60 km east of Pine Creek. Mineralisation is widespread along the major Coronet Hill fault with minor production from several veins over

a strike length in excess of 4 km. A wide range of metals occur, but the limited high grade production was of copper/silver ore with an average grade of 22% Cu and 500 g/t Ag.

The persistent nature of the mineralisation and substantial strike length encouraged one explorer in 1967 to postulate that there could be 3.4 million tonnes of mineralised material at a grade of 4.2% Cu and 360 g/t Ag. The data used for this estimate has not been seen and it cannot be classified using JORC criteria.

Extensive geochemical sampling has been carried out, but little drilling, with only 8 RC and 2 diamond drill holes being recorded. The best intersection was in a RC hole of 5 metres of 2.96% Cu, 0.6% Pb, 0.7% Zn and 210 g/t Ag. The exploration objective is to find medium sized high grade zones along the fault zone. This has had minimal testing given the strike length of mineralisation and low drill density.

IRON ORE PROJECT

FRANCES CREEK

Several iron ore deposits occur on AN389 and adjacent tenements. These were mined in the period 1966-1974, when 8 million tonnes of iron ore grading 59% Fe were produced

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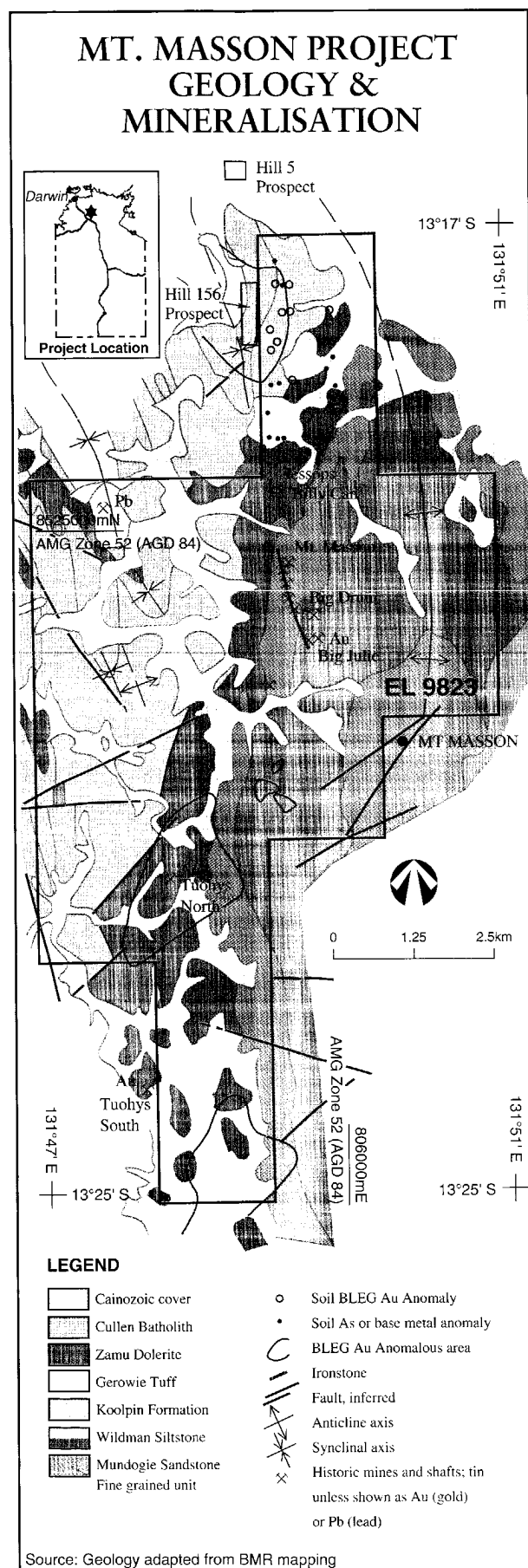


Figure 9

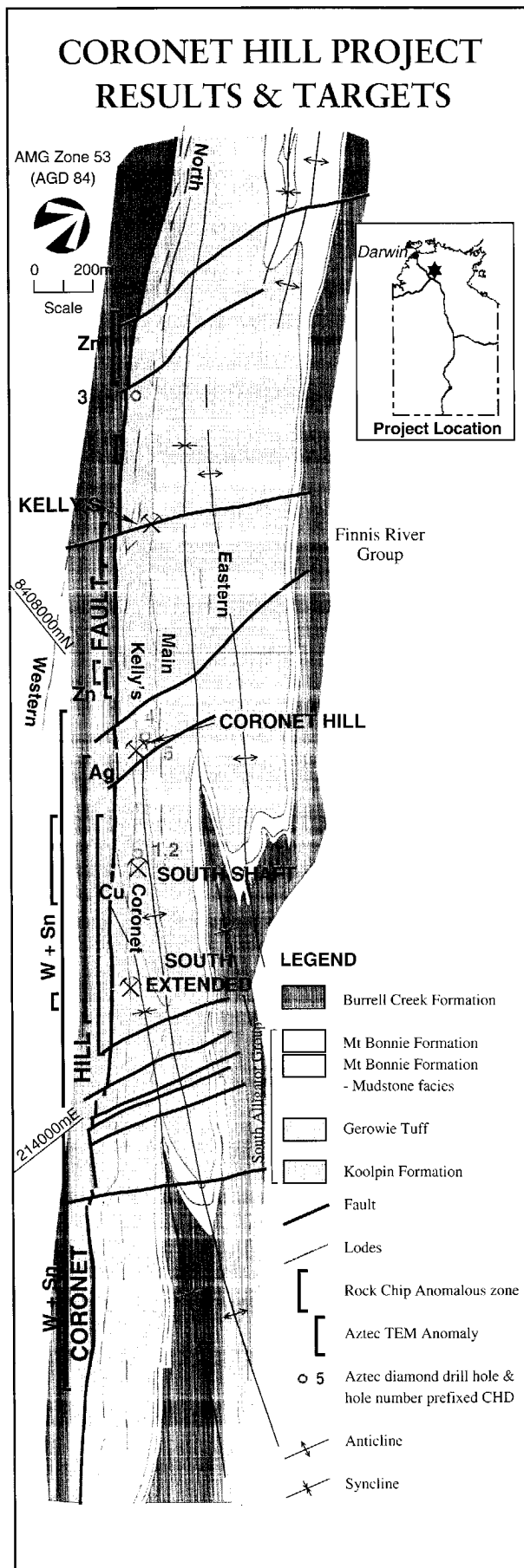


Figure 10

Section 4 The Company and its Projects

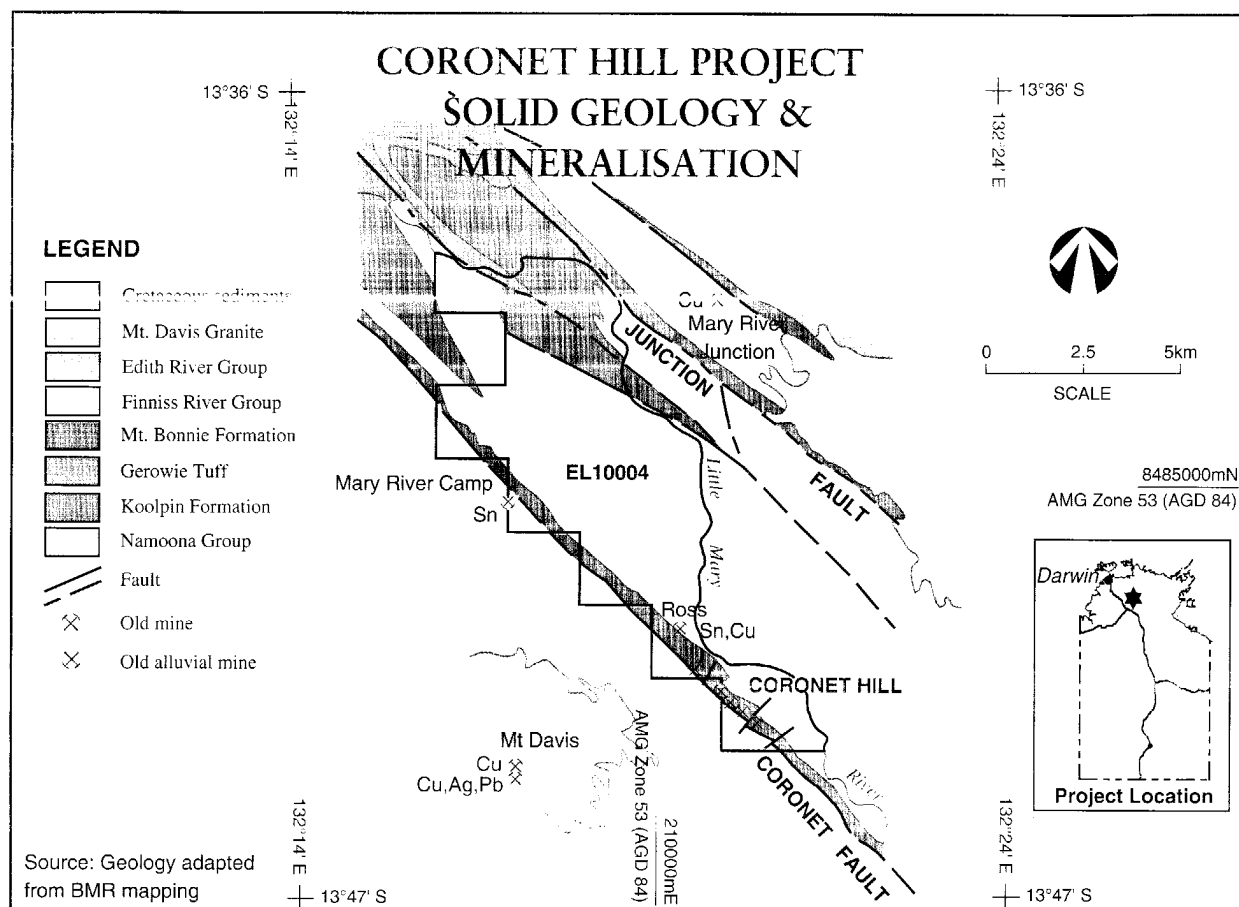


Figure 11

and railed to Darwin.

Numerous strata bound deposits occur in the area with mining taking place in at least 13 different pits (Southern Zone). Further deposits occur in the vicinity of Ochre Hill 2 km north of the mined pit (Helene 6/7).

At the time mining ceased, there were unmined reserves remaining in several pits. These reserves are worthy of investigation and may prove commercially viable.

Remaining resources in the area were evaluated in 1974. Insufficient data has been recovered to allow these resources to be classified using JORC criteria, but data that has been assessed, indicates that a substantial portion of the resource should be in the indicated and measured categories.

The published resources are:

	Tonnes	Fe %	P %
Southern Zone	1,370,000	63.5	0.08
Northern Zone	2,430,000	54.5	0.18
Includes	806,000	60.1	0.18
Total resource (+60% Fe) 2,176,000 tonnes @ 62.2% Fe, 0.12% P.			

PHOSPHATE-RARE EARTH ELEMENT PROJECT

NOLANS BORE PROJECT

Location

Nolans Bore is situated near the Aileron roadhouse/motel some 135 km north of Alice Springs. The project is 13 km

west of the all weather Stuart Highway and 5 km from an operating natural gas pipe line. The new Alice Springs to Darwin rail link will pass 60 km to the east of the project. Alice Springs (population 25,000) is capable of servicing most basic needs of a mining operation with many well established metal-working, electrical, hydraulic and agency style of businesses. There is a daily jet aircraft service to most Australian capital cities.

The project is 100% owned by Arafura which simplifies decision making. The main tenement containing the rare earth elements (REE) and phosphate discovery is a granted exploration licence with no Native Title impediment to exploration.

Nolans Bore Resource

Exploration to date consisting of 6 costeans (888 metres) and 12 RC drill holes (856 metres), has provided sufficient data to estimate an inferred resource totalling 3.8 million tonnes at a grade of 4% total rare earth oxide (REO) and 17% P₂O₅ to an approximate depth of 60 metres. The mineralised bodies outcrop at the surface and could be mined by low cost open pit mining. Considerable scope exists to substantially increase the identified resource, which is already large enough to sustain a mining operation for 20 years at a production rate of some 8,000 to 10,000 tonnes

Section 4 ▲ The Company and its Projects

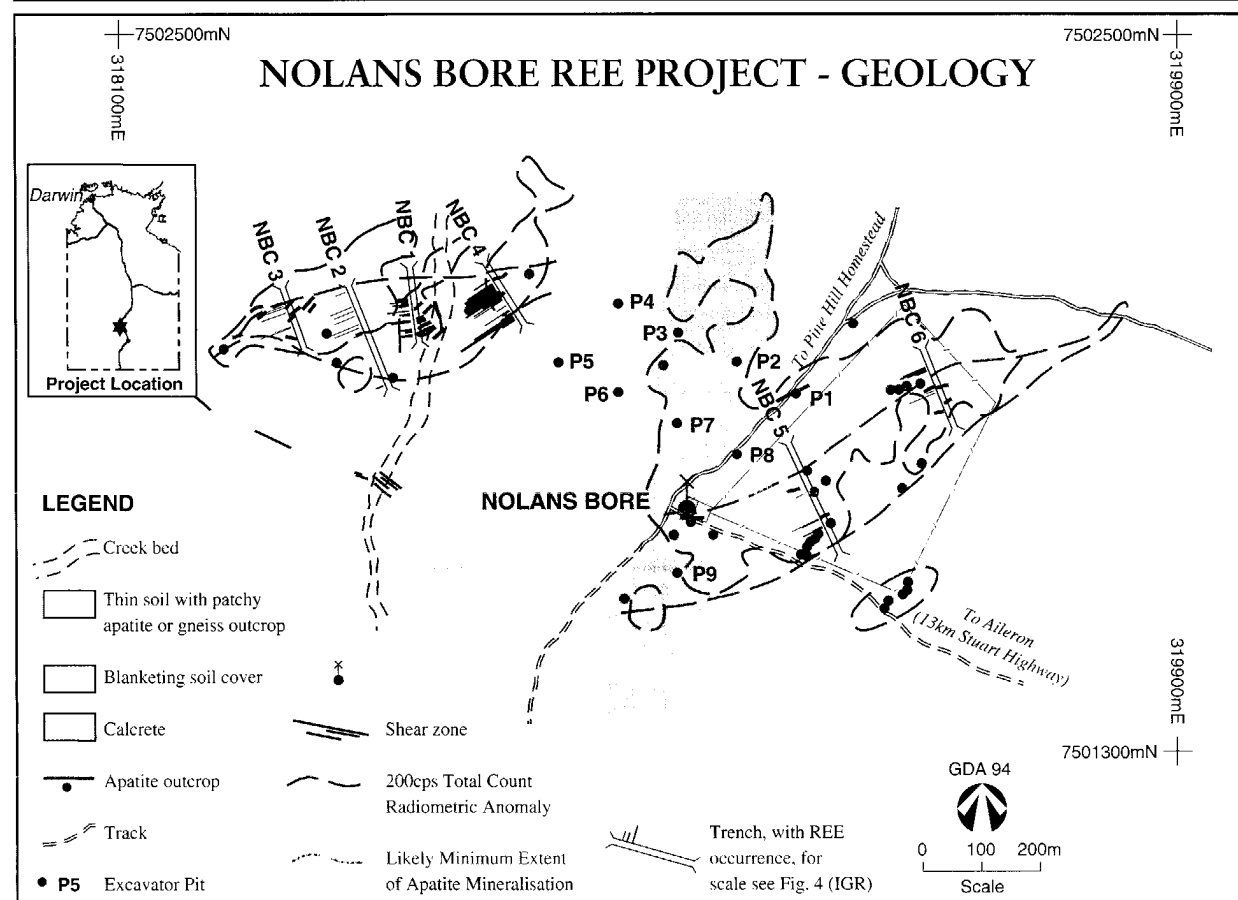
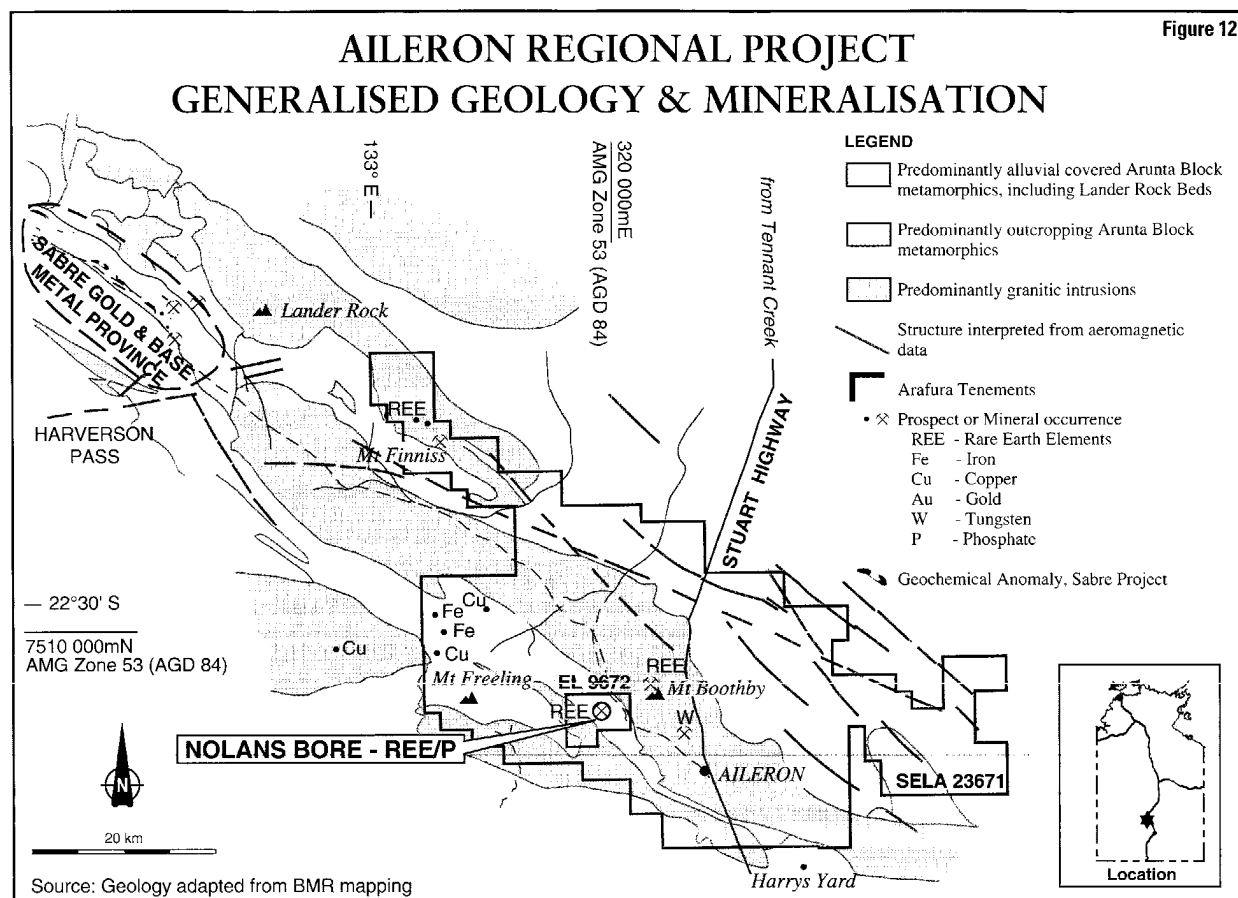


Figure 13

Section 4 ▲ The Company and its Projects

of contained REO per annum. The deposit is unique with both high phosphate and REO grades. These high grades provide the opportunity for Nolans Bore to be a low cost producer of both products.

Preliminary studies indicate that the host apatite ore can be physically upgraded to produce an apatite concentrate containing approximately 8% REO and 35% P_2O_5 . The apatite would then be treated with an acid leach solution to dissolve the rare earth metals. Recovery from the acid solution to produce a saleable product requires proprietary technology. This is available to Arafura under licence from Norsk Hydro, the largest fertiliser company in the world, who have particular expertise in the processing of apatite to produce both NPK (nitrogen, phosphorus & potassium) fertiliser and REO.

The Nolans Bore deposit occurs as veins or dykes of massive fluorapatite (calcium, fluorine phosphate) which contain significant REO and phosphate in both the lattice of the apatite and in subsidiary discrete rare earth minerals. Individual massive veins typically contain 8% REO and 35% P_2O_5 and usually occur as swarms which may be several hundred metres long and vary from 0.30 to 35 metres in true thickness.

Development issues

Arafura's interest in the phosphate potential of Nolans Bore was stimulated by the approach from Norsk Hydro, the world's largest producer of NPK fertiliser. The discussions with Norsk Hydro and subsequent investigations indicate:

- 1) The Nolans Bore ore should be able to be beneficiated on site to 35-40% P_2O_5 and 8-9% REO. The beneficiated product or concentrate, is both a high grade REO concentrate and a high grade rock phosphate concentrate.
- 2) The concentrate would be a premium feedstock for a specialised nitrophosphate fertiliser and REO plant to produce REO, NPK and other specialised fertilisers, including ammonium nitrate and calcium nitrate.

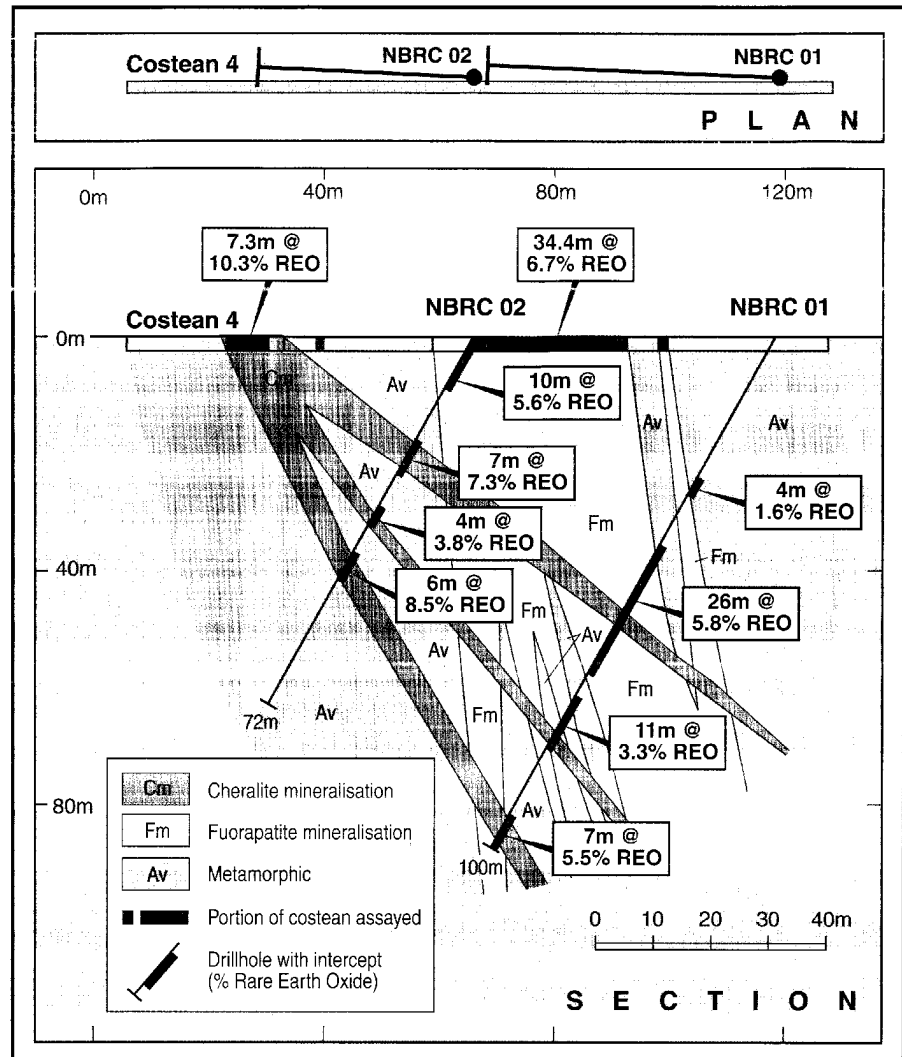


Figure 14

These fertiliser products typically sell for 50 to 150% more than sulphur based fertilisers, such as superphosphate.

- 3) NPK and ammonium nitrate are increasingly in demand in East Asia. Hydro Agri have a distribution network in the region and are looking for additional sources of supply. They have requested marketing rights for the area.
- 4) Darwin has natural advantages for a plant due to the availability of natural gas, probable availability of ammonia and proximity to markets. The new Darwin railway line passes 60 km east of Nolans Bore.
- 5) The plant would be specialised, with an REO recovery circuit producing high value products that would be predominantly exported. It would not be competing in the domestic fertiliser market.
- 6) Arafura's technical adviser, Hydro Agri (a subsidiary of Norsk Hydro), is the acknowledged leader in the design, construction and operation of nitrophosphate

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fertiliser plants and have built and operated a plant that uses a similar feed stock to Nolans Bore beneficiated product. This plant successfully operated a REO recovery circuit, but did not continue operation, due to the low REO grade of the feedstock (<1% REO compared with 8-9% REO for Nolans Bore).

- 7) Nitrophosphate plants are environmentally friendly with minimal emissions and waste products. They are net consumers of CO₂.
- 8) All Hydro Agri's relevant technology is available under license to Arafura.
- 9) The profit from the production of high value fertiliser should more than offset the REO production cost, so that REO will effectively be produced as a by-product at no cost. This gives the project strong financial resilience, so that it should be able to trade profitably, notwithstanding weak markets, for either of its products.

The rare earth market is dominated by sales contracts between producers, processors and consumers. Rare earths are not traded on a commodity exchange so pricing is by negotiated sales contracts. Rare Earth products are generally priced in terms of US\$ per kg of REO, regardless of the chemical form in which they are marketed.

Indicative prices for a 60% REO concentrate (similar to the most likely initial product of Nolans Bore) are quoted in the financial press and can be used for primary financial evaluation. The financial analysis has used an assumed price of US\$2.65/kg of REO. This is in line with low recent prices which reflect a cyclical down trend. Despite this use of conservative pricing, an initial internal analysis shows robust financial returns. However definitive costs and returns will only be determined in the feasibility study.

Project development

The first stage of Arafura's development plan will comprise an intensive geological, metallurgical and engineering programme aimed at completing a pre-feasibility study of the mining and treatment of Nolans Bore ore and the marketing of the products. During this period Arafura will continue to develop alliances with parties that have expressed interest in the project with the objective of negotiating agreements that will facilitate the financing of a treatment plant. Arafura intends to restrict its financing and managing commitments to the low cost mining and mineral dressing stage, with the downstream treatment plant being financed and managed by other parties.

The next phase will see larger scale testing at the pilot plant level, some of which will be undertaken at overseas facilities.

As a prelude to final feasibility studies the Company will

undertake definition drilling to elevate the resource to proven reserve status.

Final feasibility studies aimed at satisfying financing requirements will be carried out in conjunction with end users and processors. These tasks will include detailed engineering design, full permitting of the project, development of sales and marketing contracts and procurement of project finance.

It is anticipated that Nolans Bore will be developed as a conventional open pit mine using selective mining and optimising techniques developed in the Australian gold mining industry so that ore grades are maximised and costs minimised. The discrete nature of the ore bodies will facilitate effective grade control. All equipment used in the mining operation is available off the shelf and will probably be supplied by a specialised mining contractor.

Arafura has considered a number of treatment options for Nolans Bore ore. In all options ore will be delivered to a conventional crushing and grinding circuit to provide feed to a mineral dressing circuit which would upgrade the product for input to a hydrometallurgical plant or nitrophosphate fertiliser plant.

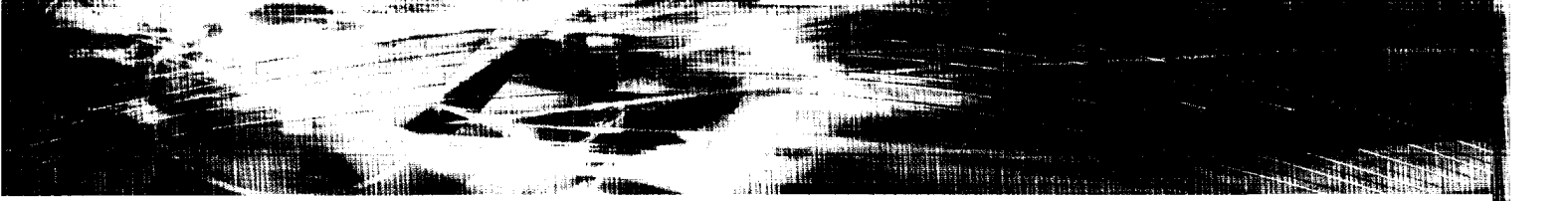
PHOSPHATE MARKET OVERVIEW

PHOSPHATE ROCK

The host to the REO mineralisation at Nolans Bore is the mineral, apatite, which is basically calcium phosphate. This will be economically important for future exploitation of the Nolans Bore REO deposit as apatite is also the main source of the phosphate-based fertilizers which are used in agriculture throughout the world to increase crop yields. Importantly, its natural high grade form as rock phosphate, apatite, and its finer grained variants (francolite and collophane) are the only known economic sources of elemental phosphorus which is essential to the survival of all living plants and animals. There are no viable natural sources of phosphorus other than rock phosphate and no synthetic substitutes for phosphorus as a nutrient to plant and animal growth.

Rock phosphate is never pure. It normally contains 10-50% non-phosphate minerals (such as clay and quartz) and is subdivided into two main types - sedimentary phosphate (phosphorite) rock and igneous phosphate rock depending on how it has formed.

In contrast to the phosphate grade in phosphorite, igneous phosphate rock generally contains 4-15% P₂O₅ but can be beneficiated to 35-40% P₂O₅ as the phosphate occurs as fluorapatite which can be separated by simple mineral dressing. Most igneous phosphate deposits contain low sub economic grades of REO. Nolans Bore appears to be unique in its high grade REO grades.



Section 4 ■ The Company and its Projects

Nolans Bore phosphate rock in its natural massive form generally contains 30-32% P_2O_5 because fluorapatite constitutes 80-85% of the rock. It is anticipated that grade control practices during mining followed by physical upgrading and possibly simple mineral flotation will actually allow production of REO/phosphate feed-stock at Nolans Bore containing 35-40% P_2O_5 and 7-9% REO.

Igneous phosphate rock from the Khibini Carbonatite on the Kola Peninsula in Russia has been the main feedstock for fertilizer production by Hydro Agri at their nitrophosphate plant in Norway. This fluorapatite resource, when beneficiated, contains almost 1% REO, which was recovered for some time by Hydro Agri as a by-product from a commercial scale REE production facility attached to their fertilizer operation. This was uneconomic due to the low grade. The Nolans Bore REO feed grade will be about ten times the grade of the Hydro Agri feed.

PHOSPHATE FERTILIZERS

As nitric acid for NPK production is produced from atmospheric nitrogen and natural gas (both available in the Northern Territory), and as there is no obvious cheap supply of sulphuric acid in the Northern Territory, the NPK route at this stage appears to offer the best opportunity for fertilizer production, as an adjunct to REO production, from Nolans Bore phosphate rock. A normal sized NPK plant would have a requirement for about 330,000 tonnes of clean rock phosphate per year which is consistent with projected requirements for production of sufficient REO to satisfy 10-20% of world supply from Nolans Bore.

Importantly, NPK fertilizer production is not only being viewed as the more environmentally responsible route for production of phosphate fertilizers but NPK fertiliser also performs better in tropical climates. Not only does the NPK route avoid the production of unmanageable quantities of waste gypsum (5 tonnes for every tonne of P_2O_5 produced in fertilizer) but the NPK route actually consumes 2.5 tonnes of atmospheric carbon dioxide for every tonne of P_2O_5 produced in fertilizer. In addition the NPK process does not produce nitrous oxides or sulphur dioxide which are both atmosphere pollutants.

Processed fertilizer products could actually generate 2-3 times the gross revenue anticipated from REOs recovered from Nolans Bore fluorapatite and this has potential to make any REO production relatively impervious to vagaries in the international REO market.

Australia's continuing dependence on imports, in conjunction with better than average growth in fertilizer demand in Asia and a dearth of suitable raw materials in most Asian countries, enhances the prospects of Northern Territory-based fertilizer production in association with REE production from Nolans Bore fluorapatite.

RARE EARTH MARKET OVERVIEW (SEE MARKET REPORT IN SECTION 7)

Rare earths enable the manufacture of miniaturised electronic components and they have become critical to the manufacture of consumer electronics and mobile telephones. Also their catalytic properties have created a demand for their use in autocatalysts.

The many Chinese producers dominate supply to the industry. In recent times the Chinese producers have sought to increase levels of value adding taking place within that country.

The selling prices of rare earths are difficult to determine as over 70% of the rare earths are sold through confidential supply agreements. Furthermore the western producers no longer publish price lists, while the Chinese prices, advertised on the internet, generally apply to lots of 5,000 kg or smaller.

As a result of the supply pressures identified in Section 7 there was an appreciable increase in the price of bastnaesite (rare earth carbonate) concentrates (70% REO) sold in the USA in the six years to 2000. However since then supplies have increased and prices have fallen.

Forecast Demand Trends

Over the next few years, the trend in demand will probably continue towards individual compounds, metals and special mixtures, for use in magnets, glass additives, catalysts, batteries and specialty alloys.

Over the past 15 years usage of REO has been growing at an average of around 10% per annum. There is no obvious reason why this expansionary trend will not continue with known technologies being implemented on a broader scale and new uses being brought forward on a frequent basis. If this growth rate persists demand will double in 7 years. At the present time there is a supply overhang due to over optimistic mobile phone sales projections. After this temporary downturn the uptrend is expected to continue. REE have unique chemical and physical properties which have contributed to the development of new and improved products. Rare earth oxides (the commonly used form of REE) have a very high melting point which makes reduction difficult and their performance reliable.

REE have been known for many years but their increased incorporation into products such as super magnets, batteries and electronic components has increased their economic importance.

"Rare earths are a critical minor constituent of many advanced materials that are essential inputs in the manufacture of such items as mobile phones, computers, televisions and autocatalysts. Although rare earths have a relatively high unit value, the impact of this cost has little, if any, impact

Section 4 ▲ The Company and its Projects

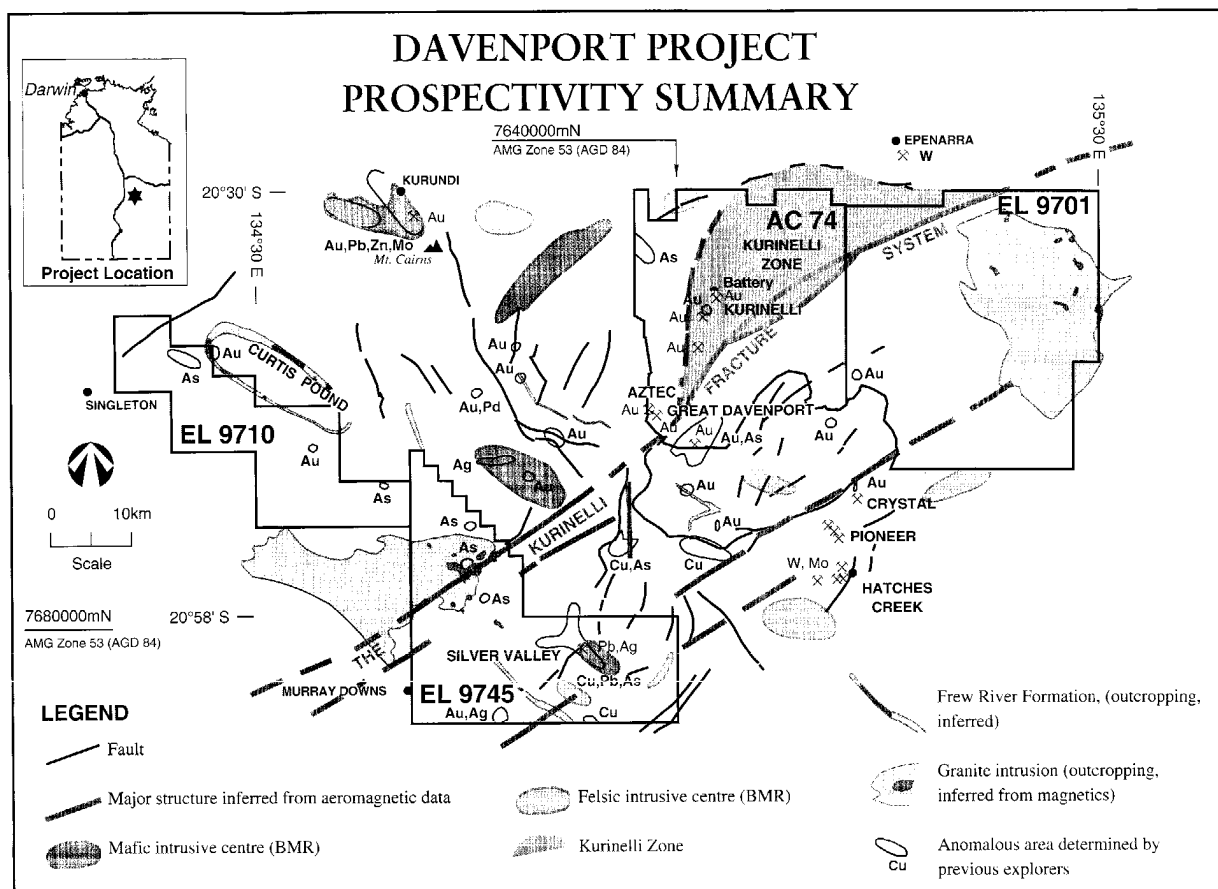


Figure 15

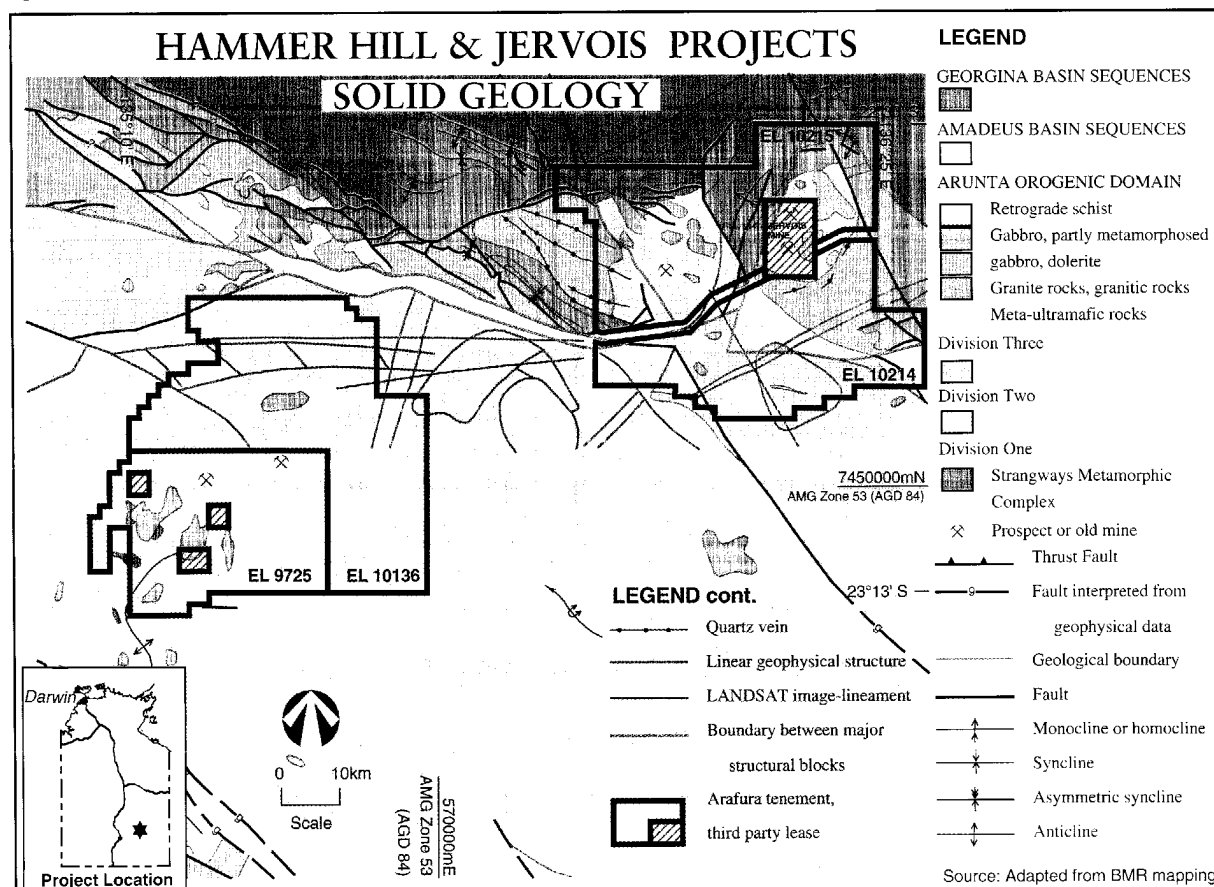


Figure 16

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on the selling price of the final item. Furthermore, as they are generally present in minute concentrations they are not recycled. It is for these reasons rare earths are considered strategic materials. In Japan rare earths are often referred to as the seeds of high technology."

Refer to Rare Earths Market Overview, Section 7 this Prospectus.

WORLD RARE EARTH PRODUCTION

China currently produces 85% of world supply, with most of their output coming as a by-product of iron ore mining in Inner Mongolia. REO production from this area is being restrained by a fall in iron ore production as Chinese mills buy ore from higher quality sources such as Australia. The Chinese have been increasingly moving towards control of the processing sector as well as mine production. Many processors have moved to joint venture arrangements in China whereas before they had significant facilities in their own countries.

Arafura through industry sources, has become aware of a growing disquiet with the reliability of China as a supplier. Rare earths are becoming more and more a strategic material with many high-tech production lines dependent on regular supply.

Arafura's Nolans Bore rare earth mine will be a low cost producer as its coproduct will be high value nitrophosphate fertiliser with a high level of demand in the east Asian region.

OTHER PROJECTS

CENTRAL AUSTRALIA

KURINELLI GOLDFIELD

Arafura has obtained a major ground position centred on the historic Kurinelli goldfield which is located 100 km east of the Stuart Highway and 400 km north east of Alice Springs. Kurinelli offers a unique opportunity to explore a goldfield that has not been the subject of modern exploration.

Arafura has a high opinion of the prospectivity of this group of tenements collectively known as the Davenport Projects. The Company's opinion is confirmed in the independent geologist's report which comments "Drummond considers that Arafura is rightly enthused about the potential of the Kurinelli Zone to host major Au economic occurrences".

The Kurinelli goldfield was first discovered by pioneering prospector Davidson in the 1890's. Davidson (who has been credited with finding the Tanami gold district) sank shafts and discovered widespread mineralisation.

The Kurinelli goldfield has had very limited geological exploration due to the tenement situation, which restricted tenure to individual prospectors mostly working with metal detectors. Discussions with prospectors plus Government statistics indicate that some 150kg (almost

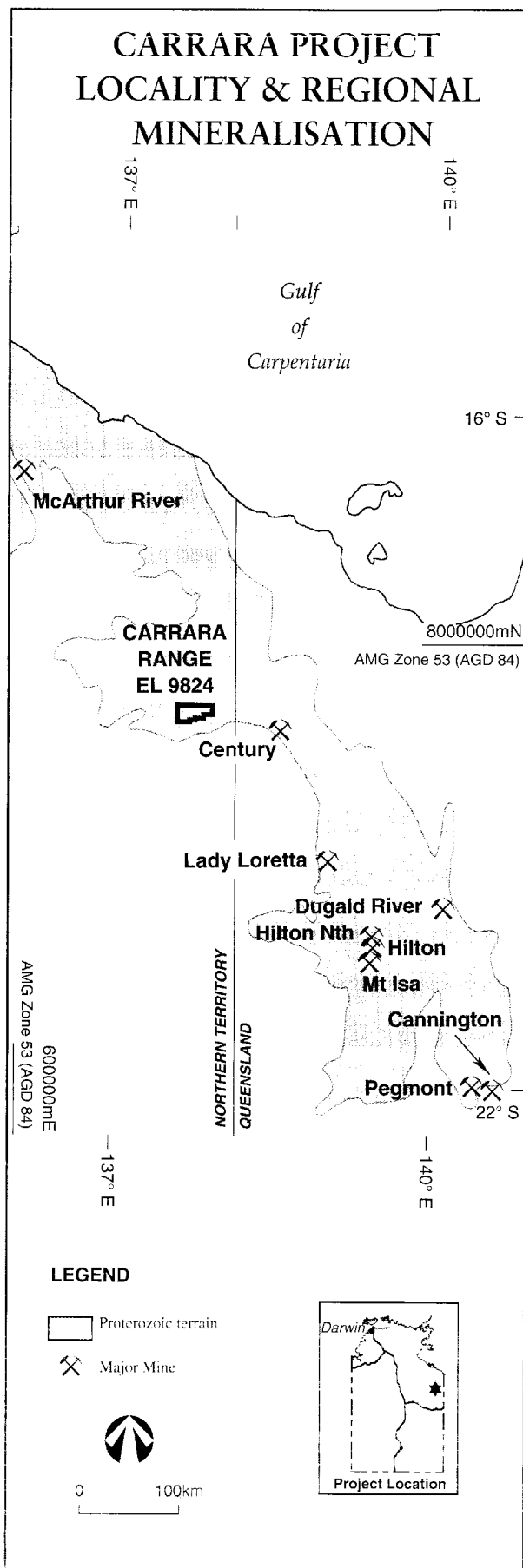


Figure 17

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5000 oz) of nuggets have been recovered from metal detecting in the past 10 years.

Examination of the prospectors' discoveries indicates that the gold has not travelled far and as a consequence one of Arafura's targets will be the source of that gold.

The Company has acquired aeromagnetic data, including the infill flying of the central Kurinelli area. This data has enabled the identification of an extensive, discrete geological entity that envelopes all the known Kurinelli mineralisation. Arafura's exploration will examine the fracture systems and splay faults (favourable hosts of commercial Au mineralisation) to locate drilling targets.

HAMMER HILL PROJECT

The Hammer Hill tenement grouping is located 200 km north east of Alice Springs and a similar distance from the Stuart Highway along the Plenty Highway.

Arafura was originally attracted to the region by reports of laterite nickel/cobalt prospectivity near Hammer Hill as well as significant rare earth grades recorded at the Holsteins prospect. Holsteins will be explored as a priority as success would enhance the longevity of any operation developed at Nolans Bore.

This group of tenements are located centrally in an area that is currently being explored for platinum group elements.

JERVOIS PROJECT

The Jervois mining centre is located some 100 km to the east of the Hammer Hill projects, along the Plenty Highway. Arafura's tenement position surrounds the historic Jervois mining centre and covers numerous recorded mineral occurrences.

Recent exploration discovery of extensive low to medium grade strata bound copper mineralisation by Mt Isa Mines and Solbec Pharmaceuticals (formerly Britannia Gold) has drawn attention to the prospectivity of the region. These targets were developed through the use of a proprietary Induced Polarisation technique.

CARRARA RANGE PROJECT - MT ISA BLOCK

This project is located near the Northern Territory Queensland border and is considered to have potential for McArthur River/Mt Isa/Century-style of base metal mineralisation. It is now being farmed out to Anglo American Corporation who can earn a 75% interest by spending \$1.25 million over 5 years.

Anglo will focus its initial exploration efforts on the Lawn Hill Formation on the tenement, as it is this unit, which hosts the Century deposit, approximately 100 km to the east.

Section 4 ▲ The Company and its Projects

SUMMARY OF EXPENDITURE BUDGET

The following budget has been prepared on the assumption that the Company is successful in raising the proposed \$3.5million. Individual expenditure items will be varied according to geological results. The Company may investigate additional prospects as they become available and also accept farm in joint ventures if terms are favourable.

	Year 1	Year 2
Mt Porter		
Metallurgical evaluation	\$50,000	
Geotechnical studies	\$50,000	
Exploration	\$50,000	\$50,000
Sub Total	\$150,000	\$50,000
Frances Creek		
Drilling & assaying	\$450,000	\$150,000
Geochemical sampling & mapping	\$100,000	\$30,000
Metallurgical studies	\$25,000	
Geotechnical studies	\$30,000	\$10,000
Sub Total	\$605,000	\$190,000
Mt Masson		
Geochemical sampling	\$25,000	\$10,000
Geological follow up	\$10,000	\$20,000
Sub Total	\$35,000	\$30,000
Coronet Hill		
Data evaluation	\$5,000	\$10,000
Geological mapping	\$20,000	\$10,000
Sub total	\$25,000	\$20,000
Nolans Bore		
Bulk sample	\$50,000	
Metallurgical testing	\$25,000	\$50,000
Drilling & costeaning	\$30,000	\$30,000
Prefeasibility study		\$30,000
Marketing	\$10,000	\$25,000
Sub Total	\$115,000	\$135,000
Kurinelli		
Geological mapping & sampling	\$165,000	\$250,000
RAB & percussion drilling	\$245,000	
Sub Total	\$410,000	\$250,000
Hammer Hill		
Seeking Joint Venture Partner		
Carrara Range		
Joint venture partner covering expenses		
Administration	\$467,000	\$467,000
TOTAL	\$1,807,000	\$1,142,000

Section 4 ▲ The Company and its Projects



Hydro
Fertilizer
Technology

BY COURIER

Please direct all correspondence to:
Hydro Fertilizer Technology BV.
c/o Hydro Belgium SA.
Avenue Marcel Thiry 83
B 1200 Bruxelles (Belgium)
Tel int: +32 2 7735 367
Fax int: +32 2 7735 635

ARAFURA RESOURCES NL
Unit 1, Level 2 - Bowman street 9
P.O. Box 394
South Perth, Western Australia 6151
Australia

for the attention of Mr. I.G. Muir,
Managing Director

O/Ref. 2002-100 KIS/sdm

10 June 2002.

Dear Mr. Muir,

Subject: Agreement Nolans Bore

Following your letter of 30 May 2002, we take pleasure in returning an executed original of the letter relating to the Agreement-Nolans Bore.

The second original will, as agreed, be kept in our files.

Yours sincerely,

for

Knut Sandvik,
Managing Director.

Encl.: Letter dated 7 May 2002

\\DATA\HFT\correspondence\2002

Hydro Fertilizer Technology B.V.
Industrieweg 10
NL-4541 HJ Sluiskil
The Netherlands

R.C. Terneuzen : 210 12936
Amro Bank Rotterdam : 42.60.33.310
V.A.T. : NL 801080174B05

Section 4 ■ The Company and its Projects

To Arafura Resources NL
Unit 1, Level 2
Bowman St
SOUTH PERTH WA 6151

Attention Mr IG Muir

RE: NOLANS BORE FLUORAPATITE- REO PROJECT

Following our mutually informative discussions in Darwin on 3 4 April, 2002, Hydro Fertilizer Technology B.V. (HFT is a legal entity within the Hydro Agri division) hereby offers the services of our organization as Technical Advisors during investigations of Arafura Resources Nolans Bore fluorapatite-rare earth deposit.

Initially, this will involve bench-scale metallurgical and process investigations by HFT of mineralized material from the deposit. We understand you currently hold such material in store.

As you are aware, HFT has demonstrated patented expertise at the production scale for the commercial recovery of REOs (Rare Earth Oxides) from fluorapatite during production of nitrophosphate fertilizers in Norway. It is our preliminary opinion that feed stock from Nolans Bore, subject to further investigations, offers substantial potential for long term commercial scale production of similar REO and fertilizer products in Australia.

If the proposed studies and subsequent feasibility studies demonstrate that such a project is feasible, HFT would be prepared to licence its technology to the Nolans Bore project for the production of REOs and other products such as fertilizer. Should the production of fertilizer eventuate, then the Hydro Agri division shall use its world-wide marketing and distribution system to sell such products on a normal commercial basis.

HFT would be prepared to provide services based on its extensive technical expertise to full implementation of the project through bankable feasibility, construction management, commissioning and production.

HFT is willing to grant the license and provide the different services to your Company on normal commercial terms and conditions. This offer remains valid until May 31, 2006.

Compliance with applicable competition law regulations and anti-trust authorities' approval are foreseen as a basis for HFT involvement.

HFT understands that Arafura Resources is in the process of raising capital for the the ongoing investigations of the Nolans Bore deposit properties by way of an Initial Public Offering of stock (IPO) and consents to the inclusion of this letter in the public information documents to be issued to prospective investors of capital in the IPO.

We look forward to establishing a long and successful association between our Companies.

Yours Sincerely

Knut Sandvik
Managing Director
Hydro Fertilizer Technology B.V.

AGREED AND ACCEPTED
ARAFURA RESOURCES N L

I.G.Muir.
Managing Director

Section 5 ▲ Investment Considerations and Risks

An investment in Arafura is not risk-free and prospective investors in the Company should consider the risk factors described in this Section, together with the information contained elsewhere in this Prospectus, before deciding whether to apply for Shares and Attaching Options. Arafura operates in the mining and exploration industry and accordingly is subject to the risks inherent in that industry.

5.1 Resource Estimates

Resource estimates are expressions of judgment based on knowledge, experience and industry practice. Estimates which were valid when made may change significantly when new information becomes available.

In addition, resource estimates are necessarily imprecise and depend to some extent on interpretations, which may prove to be inaccurate. Should the Company encounter mineralisation or formations different from those predicted by past drilling, sampling and similar examinations, resource estimates may have to be adjusted and mining plans may have to be altered in a way which could adversely affect the Company's operations.

5.2 Exploration and Development Risks

Mineral exploration and mining are high risk enterprises often subject to competition for prospective ground. In addition economic factors that contribute to the discovery costs such as demand for commodities, stockmarket fluctuations affecting access to new capital, environmental issues, project financing difficulties, labour disruptions, sovereign risk, foreign currency fluctuations and technical problems all affect the ability of a company to profit from any discovery.

There is no assurance that exploration and development of the mineral interests described in this Prospectus, or any other projects that may be acquired in the future, will result in the development of an economic ore deposit. Even if the Company holds an apparently viable deposit, there is no guarantee that it can be profitably exploited.

5.3 Legal Risks

The introduction of new legislation or amendments to existing legislation by governments, developments in existing common law, or the respective interpretation of the legal requirements in any of the legal jurisdictions which govern the Company's operations or contractual obligations, could impact adversely on the assets, operations and ultimately the financial performance of the Company and its securities.

5.4 Title

All of the tenements in which the Company has an interest will be subject to applications for renewal, the success

of which cannot be guaranteed. If a tenement is not renewed, the Company may suffer significant damage through loss of the opportunity to develop and discover any mineral resources on that tenement. However, the Directors are not aware of any reason why renewal of the term of any tenement will not be granted. For further information on the issue of title, refer to the Solicitors' Report, Section 9.

5.5 Native Title Risks

Reference should be made to the Solicitors' Report in Section 9 for a description of the native title regime.

5.6 Environmental Risks

The Company's projects are subject to Northern Territory and Commonwealth laws and regulations regarding environmental matters and the discharge of hazardous wastes and materials. As with all mining projects, these projects would be expected to have a variety of environmental impacts should development proceed. The Company intends to conduct its activities in an environmentally responsible manner and in accordance with applicable laws.

5.7 Share Market Conditions

The market price of Shares and Options can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general and resource stocks in particular. Neither Arafura nor the Directors warrant the future performance of the Company or any return on an investment in Arafura.

5.8 Commodity Price Risk

The Company is exploring for metals, particularly gold. The Company's ability to discover ore containing economic quantities of these metals will be closely related to the price of these metals. Metal prices may fluctuate and are affected by factors beyond the control of the Company. These factors include world supply and demand for metals.

5.9 No Valuation

No formal valuation has been completed of the exploration projects or the shares of the Company. The Company makes no representation as to the value of the exploration assets. It is recommended that intending investors and their advisors should make their own assessment as to the value of the exploration projects.

Section 6 Independent Consulting Geologist's Report

Andrew Drummond & Associates Pty Ltd

A.B.N. 54 061 609 407

68 Sycamore Drive
Duncraig 6023

Western Australia
Australia

Phone: (08) 9246 1213

Fax: (08) 9243 0445

Int Prefix: 61 8

E-mail: drummond@smartchat.net.au

31st March 2003

The Directors

Arafura Resources NL

Level 2, 9 Bowman Street

SOUTH PERTH WA 6151

Dear Sirs,

Independent Consulting Geologist's Report

Andrew Drummond & Associates Pty Ltd ("Drummond") has been commissioned by Arafura Resources NL ("Arafura") to provide an Independent Consulting Geologist's Report ("Report") relating to Arafura's projects ("Projects") for inclusion in a Prospectus to be lodged with the Australian Securities and Investments Commission ("ASIC") on or about 25 August 2003, offering for subscription 17.5 million shares at an issue price of 20 cents per share (the "Prospectus"), to raise a total of \$3.5 million (before costs of the issue). The funds raised will be used for the purpose of exploration, evaluation and development of its Projects in the Northern Territory.

The assessment of the Projects included in the Prospectus is based upon technical and cost information provided by Arafura and upon Government reports and reports prepared by previous title holders to the areas. Reference has been made to their sources of information, published and unpublished, where appropriate. We have endeavoured, by making reasonable enquiries, to confirm the authenticity and completeness of the technical data used in the preparation of this Report and to ensure we had access to all available relevant technical and other information. Where appropriate and practicable, and in accordance with ASIC Practice Note 55 and Update 183, consent has been obtained to quote data and opinions expressed in unpublished reports prepared by other professionals on the properties concerned.

Field inspections were made of all Project areas with the exception of Mt Masson, Mt Porter, Coronet Hill and Carrara, due to the wet season operative at the time of the field work.

Drafts of this Report were also provided to yourselves with written requests to identify any material errors or omissions prior to lodgement.

The legal status, including Native Title considerations, associated with the tenure of the Arafura Projects is the subject of a separate Solicitors' Report which appears in Section 9 of this Prospectus. These matters have not been independently verified by Drummond. The present status of tenements listed in this

Section 6 ▲ Independent Consulting Geologist's Report

Andrew Drummond & Associates Pty Ltd

A.B.N. 54 061 609 407

report has been provided by Arafura, and this report has been prepared on the assumption that the tenements are lawfully accessible for evaluation.

Arafura had generally relied on an assessment of past exploration efforts by third parties to guide its selection of its Projects. On most of them it has done a relatively small amount of work in its own right. The Drummond appraisals have generally had to rely on the numerous reports generated by those earlier explorers and a voluminous Report resulted. In accordance with Corporations Law S.712, Arafura subsequently advised that it considered its Mt Porter, Frances Creek and Nolans Bore Projects to be of more importance than the others. It requested that a new Report be prepared for inclusion in this Prospectus, which would include a detailed appraisal of those Projects, and an overview of the rest of them. Drummond is of the opinion, and in accordance with ASIC Practice Note 42, that this request is reasonable and should not disadvantage a potential investor. Accordingly a new Report has been produced and is the one which appears in this Prospectus.

Drummond is a mineral industry consulting firm which has been providing services and advice to domestic and international clients since 1993. This Report was prepared by the Managing Director of Drummond, Mr Andrew Drummond. He was awarded a B.Sc (Honours) degree in Geology from the University of Adelaide in 1972. He has had 30 years' experience in the domestic and international mining and exploration industry and has occupied senior management positions including the managing directorships of ASX-listed companies. Since 1993 he has been a consulting geologist. Experience in the Northern Territory began as a Project Geologist in the Pine Creek Geosyncline in 1978. The author has the appropriate relevant qualifications, experience and competence to be considered an "Expert" under the definitions provided in the JORC and VALMIN Codes and a "Competent Person" as defined in the JORC Code.

For the purposes of Section 1010 of the Corporations Law, Drummond was involved in the preparation of only the Independent Consulting Geologist's Report for inclusion in the Prospectus and has authorised or caused the issue of only that part of the Prospectus.

Where in this Report Drummond reports the opinions, conclusions or interpretations of previous explorers or researchers on Arafura's titles and where Drummond's opinions, conclusions or interpretations are based on those of previous explorers or researchers, Drummond adopts those opinions, conclusions or interpretations as its own and for the purpose of Section 1032 of the Corporations Law consents to the issue of the Prospectus containing them in the form and content in which they appear.

It is the opinion of Drummond that all properties are sufficiently prospective to warrant the further exploration proposed by Arafura and discussed in this Report. It should be noted, however, that any proposed exploration programme may be subject to change as new data become available, or due to changes in economic factors.

Exploration and evaluation programmes summarised in the Report amount to a total expenditure of \$3 million of which Arafura intends to spend \$2 million in the first year of assessment. At least half the liquid assets held, or funds proposed to be raised by Arafura, are committed to the exploration and development of its Projects, satisfying the requirements of ASX Listing Rules 1.4.2 and 1.4.3. Arafura has

Section 6 ▲ Independent Geologist's Report

Andrew Drummond & Associates Pty Ltd

A.B.N. 54 061 609 407

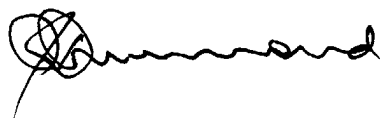
prepared staged exploration and development programmes specific to the potential of each project, which are consistent with their budget allocations, and it is generally considered that sufficient exploration has taken place in the last two years with respect to the granted tenements to justify the proposed programmes and expenditure, satisfying the requirements of ASX Listing Rule 1.4.4. In instances where exploration has not been carried out in the last two years, for various reasons, Drummond considers that the relevant areas have sufficient technical merit to justify the proposed programmes and associated expenditure.

This Report has been prepared on information available up to and including March 2003. Drummond has given consent for the inclusion of this Report in the Prospectus in the form and context in which it appears on this understanding, and has not withdrawn that consent before lodgement of the Prospectus with the ASIC.

No member, or employee of Drummond, is or is intended to be a Director, officer or other employee of Arafura. No member or employee of Drummond has, or has had, any shareholding, or the right (whether legally enforceable or not) to subscribe for securities, or the right (whether legally enforceable or not) to nominate persons to subscribe for securities in Arafura. Drummond has no, nor has had previously, any material interest in Arafura nor the properties mentioned in this Report. Its relationship with Arafura is solely one of professional association between client and independent consultant. This report is prepared in return for professional fees based upon agreed commercial rates and the payment of these fees is in no way contingent on the results of this report.

Yours faithfully

ANDREW DRUMMOND & ASSOCIATES PTY LTD



A J Drummond

Managing Director

BSc(Hons), FAusIMM, MGSA, MAIG, MSEG, MAICD

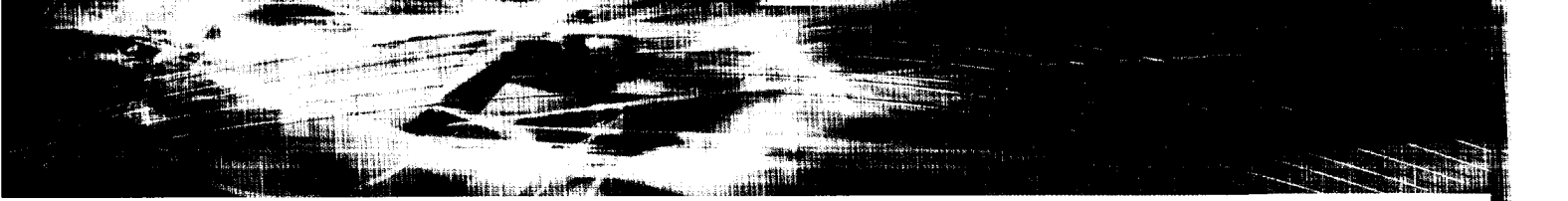
Section 6 ▲ Independent Geologist's Report

INDEPENDENT CONSULTING GEOLOGIST'S REPORT FOR ARAFURA RESOURCES NL

A detailed appraisal of the Mount Porter and Frances Creek Gold Projects, and the Nolans Bore Rare Earth Element Project, and summary appraisals for Arafura's other eight projects.

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Section 6 ■ Independent Consulting Geologist's Report

Summary

Arafura has acquired an extensive portfolio of granted tenements and applications in the Northern Territory. Figure 1 shows the regions targeted, the distribution of the projects and the commodities sought in each.

There is a predominant gold emphasis, with leading projects in the Pine Creek Inlier. There, at the **Mt Porter Project**, previous workers had defined a gold resource of 176,000 tonnes at 4.4g/t, and there is considered to be considerable potential for the geological system there to host extensions and repetitions.

At the adjacent **Frances Creek Project**, a richly gold mineralised quartz vein system, called the Golden Honcho, has been discovered. Although around one metre wide, its strongly mineralised length totals over 800 metres and surface grades average 15 grams or half an ounce per tonne. It presents an immediate drill target with the aim of proving up substantial mineable resources.

The **Mt Masson Project** also holds considerable gold potential.

Elsewhere in the Territory, gold exploration is emphasized with tenements in the Arunta Province and Davenport Ranges. At the latter, the **Kurinelli Project** is well regarded. There, Arafura's and the Northern Territory Department of Minerals and Energy's (NTDME) detailed aeromagnetic survey has led to a geological model and area constraint for the known very widespread gold system. A strong modern exploration programme is well justified.

Besides gold the Company's ownership of the **Nolans Bore** apatite and Rare Earth Elements (REE) project gives it the potential to become a world standard producer of REE. Exploration is sufficiently advanced to enable an estimate of Inferred Mineral Resources, as defined in the "Australasian Code for Reporting of Mineral Resources and Ore Reserves (the JORC Code), as follows :

In-situ, undiluted Inferred Mineral Resource to a depth of about 60 metres

- 3.8 million tonnes
- average grade of REE 3.4%; or, of Rare Earth Oxides (REO), 4.0%
- contained REO, 152 000 tonnes.

It is considered highly likely that further resources will be determined as a result of future drilling programmes, and there is considerable potential for further REE discoveries in its Arunta tenements, particularly its **Quartz Hill Project**.

Arafura has also acquired a suite of exploration projects in other prospective regions of the Northern Territory - for each of which further exploration and evaluation is considered justified.

It has proposed detailed exploration programmes for all of

its titles as tabulated. Subject to the capital raising under this Prospectus the total exploration expenditure planned by Arafura on all properties over the first two years of tenure is \$3 million. These amounts include technical supervision costs and corporate administration charges. Where the tenements are still applications, and as timing of grant is uncertain for political reasons, expenditure estimates are to be viewed as those for the first two years from tenement grant.

The aggregate expenditure proposal exceeds the ASX Listing Rules requirements. If any budgets are inadequate to meet NTDME expenditure Covenants then for those Projects Arafura has stated that it intends to identify and relinquish lesser prospective parts of its tenement holdings and/or seek to farm out the Projects based on upgrading of prospectivity after initial field work.

After reviewing Arafura's proposals in the light of current geological knowledge and the past exploration data base, Drummond is of the opinion :

- (a) that the planned programmes are generally suitable for the styles of mineralisation which will be sought;
- (b) that Arafura is cognizant of the physical environment in the project areas and has designed its exploration programmes accordingly;
- (c) that the level of expenditure in each area is sufficient to gain at least an appropriate initial level of assessment of the potential of each area to host economic mineralisation taking into account the normal risks associated with such undertakings;
- (d) Arafura has a satisfactory and clearly defined exploration and expenditure programme which is reasonable having regard to the stated objectives of the Company;
- (e) exploration conducted in the past two years and prior to that time has provided sufficient encouragement to justify the budgeted exploration and expenditure programme;
- (f) the spreading coverage of new high resolution geophysical data being generated by the NTDME can be expected to provide new targets and models for Arafura's exploration, and will allow better focus of effort and expenditure.

It should be noted, however, that Arafura has advised that as new data become available as exploration progresses, and as economic factors vary, the proposed exploration programmes may be altered to meet the then changing objectives and priorities of the Company.

Section 6 Independent Consulting Geologist's Report

REVIEW OF PROJECTS

Abbreviations

In this Report, when a chemical element is first mentioned its full name will be given, followed by its chemical symbol. Afterwards, only the symbol will be used. A listing of all elements and symbols can be found in the Glossary. Where million is abbreviated, it is to "M": similarly "t" for tonnes and "m" for metres.

THE PINE CREEK INLIER PROJECTS

Arafura has three distinct Project areas in the Pine Creek Inlier (PCI) - a well endowed mineral province (Figures 1) and (Figure 8, in The Company and its Projects (CoProj)). As well as world-class uranium (U) deposits in the East Alligator region in the east of the PCI, significant gold (Au) and base metal deposits have been exploited especially in the southern and western sections. Arafura's four Projects are in the southern part of the PCI and can be summarised as :

Frances Creek	:	Au
Mt Masson	:	Au and Tin (Sn)
Mt Porter	:	Au
Coronet Hill	:	Base metals and tin/tungsten (W)

1. GEOLOGICAL AND MINERALISATION OVERVIEW OF THE PINE CREEK INLIER

Apart from alluvial mineralisation consequent upon erosion of primary deposits, there are four main styles of primary Au mineralisation within the PCI. These occur exclusively within the metasediments and metadolerites, and almost without exception above the stratigraphic level of the middle of the Koolpin Formation in the South Alligator Group (Figure 2).

- (1) Cosmo-Howley/Golden Dyke style is hosted by silicate-sulphide facies, cherty BIF in the middle and upper levels of the Koolpin Formation, as seen at Mount Porter.
- (2) Sheeted and stockwork and saddle quartz-pyrite vein systems. Significant examples of stockwork-type Au mineralisation in the region include the Enterprise Mine at Pine Creek (1.3 million ounces of production and resources) the Batman deposit at Mount Todd further to the south (2-3 million ounces of production and resources) and the Union Reef, Brocks Creek, and Goodall deposits.
- (3) Sulphide-associated Au mineralisation in the Zamu Dolerite sills. Mineralisation of this style was mined from the Chinese Howley South deposit a few kilo-

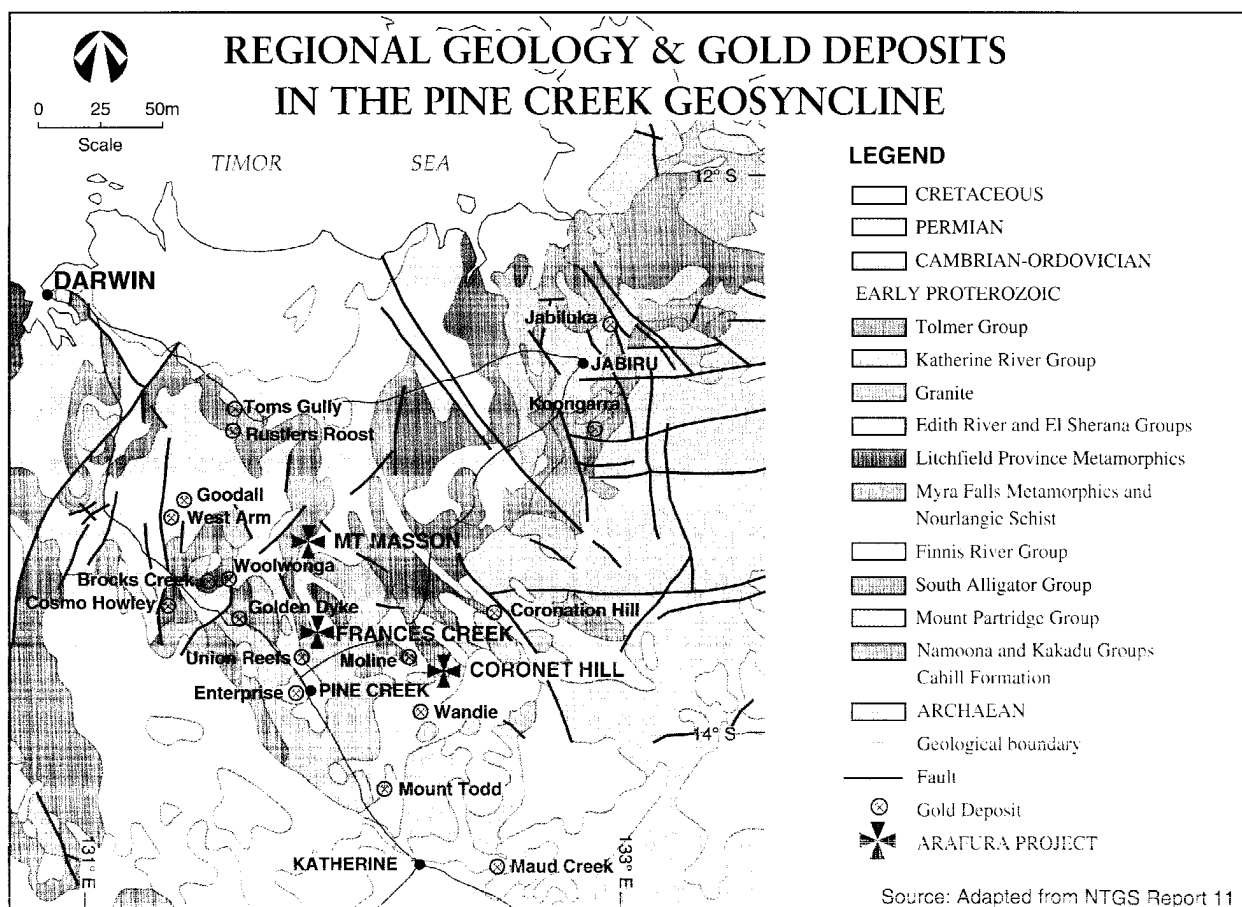


Figure 2

Section 6 ▲ Independent Consulting Geologist's Report

metres north of the Cosmo Howley Mine and it also occurs at Margaret Diggings seven kilometres south-east of the Golden Dyke Mine.

- (4) Stratiform poly-metallic base metal mineralisation (with associated Au) occurs at Mount Bonnie and Iron Blow, 30 kilometres west of Frances Creek.

2. MT PORTER

2.1 Geology and Mineralisation

Arafura holds tenure over the Mt Porter Project via ERL116 and it is situated about 5km southwest of Frances Creek, Figure 3.

Apart from younger granitic intrusions of the Cullen Batholith in the north-west and south-east corners the tenement is generally underlain by units of the South Alligator and Finnis River Groups. These sequences are younger than those in the rest of the Frances Creek area and are the more usual hosts of mineralisation in the Pine Creek district. Historic gold production occurred in the Union Extended area in the western part of ELA23237.

2.2 Past Work

Between 1986-1989 RGC Exploration Pty Ltd (RGC) held a tenement which covered the south-east part of ELA23237. It undertook a comprehensive programme involving mapping, rock chip geochemistry, extensive costeaning, percussion drilling and some follow-up diamond drilling.

It completed orebody modelling of Mt Porter in 1994 and estimated indicated resources at the 10400N Zone Prospect (see Figure 3 CoProj) as follows :

Cut-off 1.5 g/t Au - 240-250,000 tonnes at 3.6-3.8 g/t Au

Cut-off 1.7 g/t Au - 215,000 tonnes at 3.9 g/t Au

Cut-off 2.0 g/t Au - 176,000 tonnes at 4.4 g/t Au

Optimisation studies were conducted using the 1.7 g/t and 2.0 g/t model. In the 1.7 g/t case the optimum pit contained 172,000 tonnes at 4.1 g/t Au. Drummond has not independently verified these estimates.

A 16 hole RC programme was aimed at zones which returned surface values in excess of 1 g/t at the 10800N Prospect. While mineralisation was too erratic for estimation of a resource, gold intersections such as that in MPRC082 (4m @ 43.05 g/t) and MPRC089 (8m @ 8.38 g/t) attest to the mineralising fluids which have been in the system.

When ground to the north of the Mt Porter prospect became available it was taken up under Mineral Claims by Compass Resources NL (Compass) and Kakadu Resources Ltd. They mapped and defined a major quartz vein system following a north-south trending anticlinal axis. A parallel anticline to its west had similar quartz veining, which was of saddle reef, axially oriented and ladder

vein styles. The intervening synclinal axis was also found to be mineralised. Costeans dug by RGC were re-sampled.

While the potential of the Mt Porter Prospect had been indicated, a large gold bearing hydrothermal system in which gold was concentrated on the western limb of the Mt Porter Anticline and the western limb of the next anticline to its west had also been identified. There remained large areas where surface rock chip sampling had identified anomalous gold mineralisation but where no systematic testing by drilling had been conducted.

Homestake farmed into this Mt Porter North area (then held by Compass and Terra Resources NL) during 1996. It undertook a surveyed grid controlled soil sampling programme and assayed for BLEG Au and As. Two extensive anomalous areas were defined and found to be off-set from the anticlinal axes. It found that the anomalies had in all but one case not been tested by the previous RGC and Compass drilling.

To determine the source of the anomalism an 18 hole RC drill programme was undertaken to test the most significant parts of the soil anomalies. Only limited quartz was intersected and no assays exceeded 1 g/t. Three diamond holes were then drilled into the hinge zone of the Mt Porter Anticline to test for stacked saddle reefs - again without encouragement. Homestake concluded that there was surface gold enrichment; that the quartz can contain gold but there was no evidence of an economic tonnage; and that the highly fractured Mt Porter Anticline showed little evidence of fluid migration.

The most south-easterly corner of ELA23237 was held as EL9265 by Homestake: it is underlain by granite. Targets were provided by aeromagnetic trends, but geochemical sampling results were poor and there seems little remnant potential.

2.3 Overview

The Mt Porter mineralisation is hosted by silicate facies iron formation in the middle Koolpin Formation. As such it is analogous to major producers in the PCI, such as Cosmo Howley, which produced about 0.5 million ounces. A structural overprint has localised the gold deposits thus far found. Work to date has probably eliminated the possibility of a large gold deposit at surface but there would seem to be significant potential to discover further deposits of the 10400N Prospect type and size. Given the proximity to Arafura's Frances Creek deposit, they constitute valid exploration targets, as does the search for mineralised feeder zones for which geophysical techniques would probably need to be employed in the first instance.

Potential may well also remain in the Finnis River

Section 6 Independent Consulting Geologist's Report

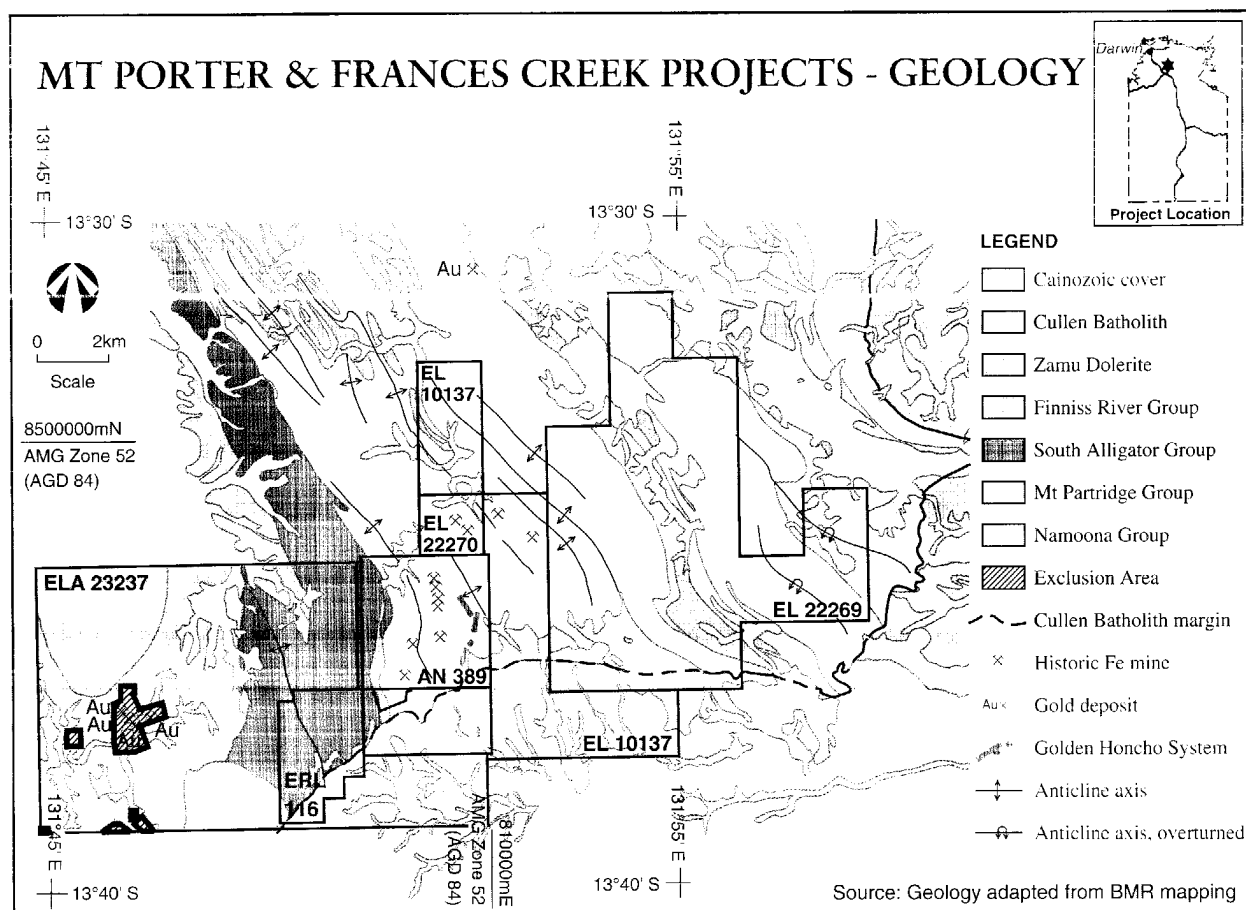


Figure 3

Group which is the main host to gold mineralisation in the district, and which hosts the Union Extended workings in ELA23237. The proximity of that mineralisation and those of Frances Creek and Mt Porter South to elements of the Cullen Batholith may point to preferred exploration areas using stream or soil BLEG gold sampling.

3. THE FRANCES CREEK PROJECT

3.1 Introduction

The Frances Creek Project is regarded as highly prospective. Previous project operator, Homestake, has discovered a major new Au play in an unusual setting in granted tenements covering the environs of the old Frances Creek iron ore mines. On Arafura's tenements east of Frances Creek, past exploration results are considered very encouraging in the light of the Golden Honcho discovery. Tenements are depicted in Figure 3.

To avoid confusion, the following terminology has been used in this section of the Report.

"Frances Creek Project" refers to AN 389 and the three Exploration Licences 10137, 22269 and 22270, totalling 31 blocks.

"Frances Creek iron mines" or "iron mines" refers to the historic iron ore producing mines situated near Frances

Creek township in AN 389.

"Frances Creek itself" refers to the creek so named.

"Golden Honcho" refers to the initial Au bearing quartz vein discovery of that name in south eastern AN 389.

"Golden Honcho system" refers to the entire Au bearing quartz vein system in AN 389 which begins at Golden Honcho at the southern end and trends northerly to the Golden Slips vein and then north westerly to the Golden Gulf, Golden Auserian and Golden Amigo veins, and to Golden Senorita which is parallel to and north east of Golden Gulf (Figure 4 CoProj).

"Frances Creek gold mines" refers to an historic producing area of that name which lies outside Arafura's tenements, being some 2.5 km north of the northern boundary of EL22269.

3.2 Project Geological Setting

The southern margin of the Project area straddles the contact between metasediments and metadolerites of the Palaeoproterozoic PCI succession, and the later though still Palaeoproterozoic intrusive Allamby Springs Granite, part of the Cullen Batholith (Figure 3).

The metasediments within the title under review largely belong to the Masson Formation and to the unconformably overlying Wildman Siltstone and Mundogie

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Sandstone. They are unconformably overlain by the Koolpin Formation and Gerowie Tuff along the western margin of AN 389. Metadolerite sills of the syn-sedimentary Zamu Dolerite intrude the Koolpin Formation and the contact between it and Wildman Siltstone. According to the Pine Creek 1:100,000 geological map (Stuart-Smith et al, 1987) the Masson Formation consists mainly of carbonaceous phyllite, slate, silty phyllite and sandy siltstone with minor quartzite and massive ironstone and rare tremolite marble. The Mundogie Sandstone is comprised of coarse pebbly feldspathic quartzite, arkose and micaceous quartzite with minor chert and pebble conglomerate. The Wildman Siltstone is divisible into two units: the upper part consists dominantly of siltstone, phyllite, carbonaceous phyllite and minor laminated coarse sandstone; the lower part includes mainly pyritic carbonaceous phyllite, siltstone and pyritic carbonaceous shale breccia (massive hematite ironstone lenses on the surface).

In the South Alligator Group, the Koolpin Formation consists mainly of ferruginous (pyritic and pyrrhotitic) and carbonaceous phyllite with horizons of laminated, lensoidal and nodular chert along with minor dolomite and marl. The Gerowie Tuff is comprised of grey siltstone interlayered with crystal tuff, lithic tuff and black cherty tuff as well as minor laminated chert.

These meta-sediments are intruded by the Zamu Dolerite sills. Adjacent to the contact with the sediment and dolerites, the Allamber Springs Granite is composed mostly of pink, coarse, equigranular and porphyritic, biotite granite. Greisen stockwork is extensively developed within a kilometre or two of the contact.

The metasediments and metadolerite sills are folded about upright folds which plunge at a shallow angle to the north-northwest. Folding was accompanied by lower greenschist regional metamorphism. The folding and the regional metamorphism are overprinted by the effects of granite intrusion. The granite contact truncates the folded sequence in a passive fashion and albite-epidote hornfels and hornblende hornfels facies contact metamorphism overprints the regional metamorphic assemblages progressively closer to the contact.

Several remnant outliers of flat-lying Mesozoic sandstone, siltstone and conglomerate are present in the Frances Creek area. Cainozoic alluvial and colluvial sand, silt, clay and gravel occur locally, principally in river valleys. They are separated from the basement rocks by residual laterite in many areas.

Gold Mineralisation. With respect to the various styles of Au deposit which have so far been mined in the PCI, previous project operators were first attracted to the

Project area because of its apparent potential for the Cosmo-Howley/Golden Dyke style. Because of the stratigraphic position of the Frances Creek titles, they were considered prospective for mineralisation of this style especially in the Middle and Upper Koolpin Formation. However, work by Homestake has now shown that the Mt Partridge Group **below** the Koolpin Formation contains brittle, sandstone hosted, quartz-veins/breccias with high grade Au, arsenopyrite, and accessory tourmaline. It was postulated by Homestake that these may represent hydrothermal leakage from blind, specialised intrusive stocks. This implies a potential for larger breccia bodies in the sandstones and for distal, pyrrhotite-subfacies, skarn or replacement bodies in the underlying limestones, which were surprisingly encountered in its drilling.

This leads to the conventional style of target in the Koolpin over a large extent of the Project area, and also to two new target styles, viz :

- skarns and replacement bodies
- the vein systems discovered on the tenements, the areas proximal to and intervening between the veins, and a search for repetitions to the east - generally near the granite contact.

3.3 Previous Mining and Exploration History

The most important historic mining is that of the Frances Creek iron mines which were mined between 1966 and 1974 by the Frances Creek Iron Ore Mining Corporation Pty Ltd. Stuart-Smith et al (1993) recorded production as 7.98 Mt of ore grading 59% iron. As Needham (1981) stated that production and reserves totalled 10.0 Mt it may be that some 2.0 Mt remain unmined, although this has not been verified by Drummond. The ironstone lodes range up to 600m in length and 20m in width, and occur conformably in carbonaceous phyllite and siltstone near the base of the Wildman Siltstone. At depth the ironstones grade into pyritic carbonaceous shale breccias, which Stuart-Smith et al consider developed during thrust faulting. The cappings were interpreted to be formed by oxidation and enrichment of the pyrite breccias prior to the deposition of flat-lying Cretaceous sediments. The current school of thought within the NTDME is that the iron is hydrothermal, related to fluids emanating from the Allamber Springs Granite intrusion of the Cullen Batholith. This new interpretation has important implications for Arafura, as discussed in Section 3.5.

While Au is mentioned as an associate in almost all of the deposits in the iron ore field, no separate Au production data has apparently been recorded. The old Frances Creek gold mine lies outside Arafura's tenements, being some 2.5 km north of the northern boundary of EL22269. Alluvial workings in Frances Creek itself are

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not known yet to be associated with an identified hardrock source. After the cessation of mining activity and surrender of the original titles, the Frances Creek iron mining area was held within a Mining Reserve because of the extent of surface disturbance caused by the operations. Consequently, up until the grant of the current titles the area was not available for systematic exploration and hence escaped the detailed investigations for Au conducted throughout the surrounding region over the past decade. Arafura's tenements have been subjected to various phases of past exploration the relevant information from which is presented below, and on (Figure 5 CoProj).

Throughout this Report, where information has been sourced from NTDME Open File company reports, that report will be named in the text rather than the Bibliography. The name format is CR year - NTDME report number: for example, CR95 - 123.

(a) CSR Limited and Casey Consolidated Holdings (1985-1989) EL4246, CR90-224

This tenement covered the central part of EL10137 and the central and northern parts of EL22269. CSR recognised that the geochemical and alteration characteristics of Au mineralisation within the Zamu Dolerite are similar to those occurring within Archaean greenstone deposits (for example, Big Bell in WA): this indicated a potential for the occurrence of significant Au deposits within it. Initial appraisal of the tenement area utilised BLEG stream geochemical sampling techniques in conjunction with regional geological mapping, airborne geophysics, reconnaissance rock-chip geochemistry, and costeaming and mapping. A weak anomaly was located in central EL22269.

(b) Henry Walker etc (1984-1986) EL4561, CR88-078

The two block tenement lay immediately south of the eastern half of EL8313 and the most south western block of EL10137. The target was alluvial Sn sourced from greisens in the Cullen Batholith which lie in the southern part of Arafura's tenements. While the Sn is not of interest to Arafura, the tenement holders reported finding trace amounts of Au in each panned sample.

(c) Griffith, Szczylowski and Ashton Mining Ltd (1988-1992) ELs 6336, 6397 and 6507, CR90-192, 91-054, 92-047, 93-107

These tenements covered most of Arafura's EL22269 and EL10137, with EL6397 largely coinciding with Casey's previously relinquished EL4750. The target was Au and the exploration technique employed was stream sediment sampling followed by As assay and BLEG Au assaying. They aimed for a sample density of one per square kilometre over the lithologies of interest. There seems little doubt that the Golden Honcho system was discovered

although their tenements lay east of Arafura's. However the significance was not recognised and the Au anomalies were discounted as being associated with iron mining contamination. *The upside for Arafura is that it seems that the Golden Honcho anomalous system extends easterly into its EL10137 for at least one kilometre.*

Another anomalous area was defined by three BLEG stream samples centred at approximately AMG 816000E 8497000N and it warrants follow-up on EL22269 (Figure 5 CoProj).

(d) Dominion Mining Ltd and Aztec (1992 - 1997), ELs 7751, 7513, 7705, 7486 and 8032 CR93-107, 93-294, 93-295, 93-296, 93-298, 93-309, 94-337, 95-168, 95-301

Not all reports were available for review, but it seems that Dominion initially explored for Au, and then Aztec farmed in and continued that search and also initiated one for base metals. The various tenements were fragmentary and this has resulted in the reporting being somewhat disjointed.

The initial exploration consisted of an aeromagnetic survey and mapping, together with a stream sediment sampling programme, and anomaly follow-up by rock chip and soil sampling. A pan concentrate and a fine silt fraction were utilised in the stream sediment work. Arafura's work at Golden Honcho and evidence from other explorers' efforts reviewed for this Report, illustrate that fine silt sampling is inferior to BLEG sampling for Au: Drummond considers that pan concentrate samples are generally a hit and miss affair. Dominion/Aztec aimed at a stream sampling density of one per two square kilometres which subsequent Arafura experience would now indicate to be too low in this district. Au anomalous pan concentrate and silt samples are shown on Figure 5 CoProj.

EL7705 was a small (four block) tenement adjacent to, and immediately east of, Arafura's AN 389, and hence it abuts the Golden Honcho discovery. Dominion's fine silt sampling did not pick up the Golden Honcho system, although several pan concentrate samples along Frances Creek itself and to the west of EL3705 were strongly anomalous. Although Ashton (see (c)) had also picked up anomalous BLEG Au samples to the south of Golden Honcho, Dominion's sampling did not locate the southern shedding of Au from the system. This demonstrated failure of the Dominion approach needs to be borne in mind when one assesses the results on the remainder of their tenements.

Aztec stream follow-up resulted in discovery of its "Target 3" (Figure 5 CoProj). A limited soil sampling programme did not lend encouragement, but rock chip values of up

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to 2.14 g/t Au were recovered. Given the wide stream sample spacing it may be that Target 3 is not responsible for the original stream anomaly. Arafura has indicated to Drummond that it intends to infill at 3-4 samples per square kilometre.

The southern part of EL7513 coincides with the northernmost part of Arafura's EL10137 and the north-west corner of EL22269. A limited programme of stream sediment sampling did not return any values of interest to Dominion and Aztec. However one silt value in the centre of the anomaly is of the tenor found by them to the south of the Golden Honcho system.

EL7551 occurs north and north-east of EL7513 and hence adjacent to the northern end of Arafura's EL22269. While the two stream sediment samples were not anomalous, the sampling density is so low that the results are meaningless.

EL7486 coincided with the eastern part of Arafura's EL10137 and the southern part of EL22269. Stream sediment sampling and follow-up rock chip sampling have identified an anomalous zone of Au mineralisation within sheared/faulted and folded Zamu Dolerite and carbonaceous schists of the Wildman Siltstone. This area, which was termed Target 2 is located ~1.5km SE of Mt Saunders. Peak stream sediment anomalies were 2.20 ppm Au - Pan Concentrate and 10 ppb Au - Silts. Follow-up rock chip sampling returned a peak response of 0.63 ppm Au. Detailed soil sampling (99 samples) identified three en echelon Au peaks which coincided with quartz vein density and strike. Responses were 26, 15 and 13 ppb Au. Follow-up RAB drilling over the peak response (26 ppb Au) returned a best mineralised intercept of 3m @ 1.61 g/t Au from surface. Aztec considered that no further activity was warranted.

(c) Corporate Developments Pty Ltd (1993-1995) EL8348. CR96-181

The tenement covers EL10137 and was subject to a stream BLEG survey. The anomalies on the north-west margin, which had been found by previous explorers, were confirmed. Additionally, two adjacent catchments in the centre of the tenement returned anomalous values.

3.4 Arafura's Investigations

Arafura's tenements were originally granted to McCleary Mining and Exploration Pty Ltd in late 1993; then farmed out to Homestake between 1995 and 1999. Exploration progress can be summarised thus.

(a) 1994

Reconnaissance soil sampling was completed by Northern Gold NL in 1994 for McCleary over the rocks of the South Alligator Group. These crop out in a band about 0.5 -

0.8 kilometres wide along the western margin of AN 389 (Figure 3). A total of 135 samples was collected at 25 metre intervals and composited to 100 metre samples along 15 lines spaced 400 metres apart. Samples were analysed for Au (BLEG) and As.

Two weak but distinct linear anomalies, each 2.0 - 2.5 kilometres long and with values to 30 ppb Au and 120 ppm As, were defined. These coincided with westerly dipping Koolpin Formation metasediments which form the hangingwall of a metadolerite sill at the base of the unit.

(b) 1995

Homestake farmed in and assumed management in 1995 (Goulevitch, 1995). A total of 598 soil samples was collected over two grid areas where the 1994 sampling had identified the Au-As anomalism. The samples returned Au and As results up to 457 ppb and 310 ppm respectively. Three groups of Au anomalies were defined which appear to correspond with the major litho-stratigraphic subdivisions in the area.

The strongest Au anomaly was found in the southerly grid, and ranged from 25 ppb to that maximum of 457 ppb: it was associated with an area of greisen alteration in the Allamber Springs Granite near its contact with older sedimentary rocks. This anomaly, which also displays moderately strong As anomalism (50 - 280 ppm), covered an area of 300 x 200 metres and was open to the east. A second zone, with strong separate As anomalism (98 - 310 ppm) associated with weaker Au anomalism, (3 - 29.6 ppb) occurs along the southern limit of the sampled area. It is also contained within the granite and may also be associated with greisen alteration. In the northerly grid, moderate Au anomalism (10 - 24 ppb) over an area of 400 x 400 metres in the north-east of it was interpreted to be underlain by pyritic metasiltsstones of the lower Wildman Siltstone. It also displays weak to moderate As anomalism (10 - 66 ppm). This anomaly is open to the east inside AN 389 and to the north beyond the boundary of the title.

Weaker Au (5 - 35.5 ppb) and As (10 - 102 ppm) anomalism outlines sinuous linear discontinuous anomalies along the length of the area sampled. These trends, which are open to the south-west and north-west into tenements not owned by Arafura, appear to correspond to metasediments in the middle of the Koolpin Formation above a major metadolerite sill at the base of the Formation.

(c) 1996

Recognition of significant Au anomalism in the Wildman Siltstone along the western margin of AN 389 led to the decision to undertake detailed exploration of the remainder of those two tenements as well as to follow-up the original anomalies. (Lindsay-Park, 1996; Stewart 1996a;

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Stewart 1996b) The activities included minus 20 mesh soil, Mobile Metal Ion (MMI) soil, and BLEG stream geochemical sampling; geological line mapping; EM surveying and magnetic data interpretation. This activity culminated in the drilling of eight holes to test various targets, all west of the iron ore workings. Homestake concluded:

- Soil sampling produced anomalous areas which when drill tested produced only low levels of Au mineralisation.
- Stream sediment sampling has identified several anomalous drainages. Only one of these had received any attention where reverse circulation drill hole FCRC002 intersected 2m @ 0.56 g/t Au. Follow-up of some of the remaining stream sediment anomalies was warranted.
- The MMI programme consisted of five lines of samples. It aimed to test the BLEG anomalies as possibly representing geochemical leakage from a deeper mineralised source (e.g. specialised intrusive or distal skarn). It produced a gold anomaly peaking at 81.65 ppb which was considered to be probably associated with a quartz-haematite vein set mapped in that area. Follow-up work was warranted and MMI soil geochemistry was not cost effective compared with conventional techniques. *In 1997, this became the Golden Honcho discovery.*
- The results of the EM survey proved difficult to interpret, but drill targets were recommended.

Homestake pointed out the importance of their discovery of Au mineralisation in the Namoonna and Mount Partridge Groups: they occur at the base of the sedimentary sequence in the PCI and they have not been conventionally regarded as target stratigraphic units.

Drummond considers that the following advances made at Frances Creek to 1996 were of significance in its future assessment there, and also to Arafura's other Pine Creek Projects.

- Detailed stream BLEG and close-spaced low detection level Au soil geochemistry can find significant anomalies missed or disregarded by previous explorers.
- The discovery of Au in greisens in an adjoining area indicates the potential for hydrothermal mineralising fluids to be associated with the Cullen Batholith in this area.
- The drill intersection of large intervals of unsuspected carbonate units (holes FCDH-08) in the Wildman Siltstone provides a reactive rock for deposition of skarn-related Au from these fluids.

(d) 1997

Work began with the aim of further explaining low order stream BLEG anomalies and the MMI soil anomaly encountered during 1996 (Stewart 1997). The peak MMI Au anomaly of 81.65 ppb was ground checked and

found to be located adjacent to a sulphidic, brecciated quartz reef hosted by sandstone. The reef returned initial assays of 11.2 to 26.1 g/t Au over a 1 metre true width. Follow-up systematic sampling gave 18.5 g/t Au average over a length of up to 360 metres and it was named the Golden Honcho Vein (Figure 6 CoProj). As a result of this initial sampling programme at the Vein, the following work programmes were subsequently completed by Homestake.

- All initial stream BLEG Au results of plus 1 ppb Au in streams were infill sampled and sourced. Resultant anomalous catchments are shown in Figure 5 CoProj. A 4 km long zone of anomalism occurs along the eastern side of AN 389. The survey also shows a strong Au background in the area of the iron ore pits. BLEG anomalies of up to 122 ppb located 2 to 3 km SE and SW of Golden Honcho have been resolved to be sourcing from small greisen zones within the Allamber Springs Granite.
- Rock chip sampling and mapping located the Golden Slips and Golden Gulf Prospects, and tourmalinised breccias grading up to 2.7 g/t Au. The reefs vary from 1 to 2 metres in width and 200 to 400 metres in length. They are often boudinaged (Golden Slips) and show syn-mineralisation brecciation (Golden Honcho). They assay between 6 and 18 g/t at surface at what was suspected by Homestake to be near the base of the supergene/sulphide interface. (Figure 6 CoProj).

Along the NNW-trend between Golden Slips and Golden Gulf a 300 to 600 metre long anomalous zone (30 to 100 ppb Au, 100 to 300 ppm As) of sporadic quartz and tourmalinised sandstone breccias was considered by Homestake to support the concept of a major zone of hydrothermal activity. Homestake modelled (Figure 6 CoProj) the magnetics, the iron ore (considered to be weathered magnetite or pyrrhotite) and the Au and tourmaline distribution to arrive at large target structures for breccia or replacement ore bodies.

- All iron ore pits were sampled, with best results being values of up to 1.68 g/t Au and 1200 ppm As in sheared shale near hematitic ironstone.

(e) 1998

- A new reef discovery, Golden Senorita, was made about 200 m north-east of Golden Gulf. A limited rock chip programme of it averaged about 0.5 g/t, peaking at 1.7 g/t. Two rock chips were taken where a drill access track cut the trend of the Golden Honcho and they averaged 1.4 g/t (Rea, 1999).
- A five-hole, 780 m RC drill programme is considered to have been too limited to have tested adequately either the feeder zone concept or the known better

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mineralised veins at depth. Drummond considers that the main feeder zone concepts and the magnetic targets required testing with deeper holes. Any meaningful testing of the 2000 m of Au bearing veins and the 1000 m of target zone between them required numerous holes, which should probably have been short ones in the first pass.

Hole FCRC9 aimed to deep test the Golden Honcho and apparently missed it or did not reach it. Best assay was 0.15 g/t over 2 metres. Hole FCRC10 intersected a 5 metres wide zone of quartz vein and sulphide mineralisation with best assay being 2.38 g/t Au over 2 metres. However with a total of 16 metres of the hole returning assays above 0.2 g/t Au, the potential for eventual discovery of significant tonnages of mineralisation is evident. Holes FCRC11 and 12 aimed to test tourmaline breccias at the north-west end of Golden Gulf but neither intersected the breccias. Best assay in FCRC11 was 0.55 g/t over 2 metres. In FCRC12 best assay was 0.32 g/t over 2 metres. FCRC13 tested the Golden Auserian system which is weakly mineralised at surface. The hole stopped at 172 metres in a zone of quartz veining and sulphide mineralisation which it began to encounter at 145 metres. Best assay was 0.28 g/t Au over 2 metres.

- A soil sampling programme was carried out by Exploremine Pty Ltd across the trend between Golden Slips and Golden Honcho on the drill access track: it identified a clearly anomalous zone. Drummond considers this exemplifies exploration potential along the entire 600 metre gap between the two vein zones.

(f) 1999

Homestake withdrew. Field work consisted of rehabilitation of drill sites.

3.5 Overview

Drummond considers that the status of the Project can be summarised thus :

- (a) The Golden Honcho system is a significant discovery for Arafura. Given the rich surface Au grades, and the length of mineralised system thus far discovered, it is difficult to perceive that there would not be future mining and Au production, at some scale. As indicated in Figures 6 and 7 CoProj, the Golden Honcho - Golden Slips sub-area is some 1400 metres in length. At present, the better mineralisation, as determined by rock chip sampling programmes, is as follows:

Golden Honcho: After the infill sampling programme, average Au grade 17.6 g/t over 420 m; average width of reef reported by Arafura 0.96 m; continuity still to be demonstrated.

Golden Slips Southern: Average 7.5 g/t Au over 225 m, fairly continuous, reef widths not reliably measured, but Homestake's work indicates an average of 1.5 - 2.0 metres (Figure 7 CoProj).

Golden Slips Northern: Average 18.2 g/t over 180 m. Homestake's work indicates average width of about 0.5 - 1.0 m.

- (b) At present the data base is insufficient to make a reliable initial resource estimate as the limited drilling to date has not been directed to this target. Homestake's target was a plus million ounce deposit and so its preference was to drill interpreted fluid feeder zones rather than to test directly below the rich but irregular surface mineralisation. The drilling on the latter is considered to have been too deep for a first-pass test. Of the five holes on the Golden Honcho system, three tested the comparatively weakly mineralised Golden Auserian Prospect, and two tested the Golden Honcho. For the latter, drilling only penetrated the relatively poorly mineralised northern sector north of a deeply incised creek which cuts the reef at 93650N. FCRC009 seems to have been sited nearest to surface mineralisation grading only 1.2 g/t, and FCRC010 under 7.8 g/t surface assays. The sector south of the Creek was not tested at all but averages 21.4 g/t at surface. (Figure 6 CoProj)

When one considers the irregular continuity of the reef at surface, and the variations in Au grade, the Homestake drilling is also considered to have aimed for overly deep intersections. Drummond has been advised by Arafura that it intends its first pass of drilling to be reverse circulation, and aimed to intersect the reefs at relatively shallow depths. These will then provide information on:

- reef depth consistency
- reef structural attitude
- whether there is a significant surface enrichment
- whether there is supergene enrichment at about the depth of the water table
- mineralisation presence or absence between the reefs - say, under the soil anomaly between Golden Honcho and Golden Slips
- whether there is additional mineralised material adjacent to the reefs, either in an alteration zone, or in a stockwork.

Assuming a degree of success in this first drill pass, progressively deeper programmes can be designed and executed, leading to an eventual resource calculation.

- (c) Arafura now has search techniques refined for the area. The topography in the leases is quite steep, and they

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are rubble covered. Other quartz vein and reef systems are known and, with BLEG anomalism known from historic exploration in EL10137 and EL22269 to the east of the Golden Honcho, there is considered to be an enhanced probability of further discoveries in the target stratigraphic units near the contact with the Cullen Batholith. The realisation that strong Au mineralisation at Frances Creek is hosted by stratigraphic units older than those conventionally thought to be targets in the PCI is considered an important breakthrough for Arafura.

- (d) The topographic variation will affect future mineable resource calculations, in particular for any open cut operation. In general, as the reefs tend to occur in ridges, there will be a more favourable overall stripping ratio. On the other hand, the incised valley which cuts the Golden Honcho vein has vertically eroded some 50 - 70 metres of reef. But the valleys may lend themselves to adit access if the reefs prove to be narrow and rich. Homestake considered that the weathering interface may be close to the present surface. The relatively fresh appearance of the rocks and the steepness of the topography support this conclusion and if correct, the rich Au grades returned to date may have only a limited, or no, surface enrichment.
- (e) Homestake's models for large deposits in the Frances Creek area still appear to be valid and, in the main, await testing. Figure 4 CoProj indicates the main magnetic features and their relationship to both the Golden Honcho system and the Frances Creek iron deposits.

Drummond agrees with the programme which can be seen to be aimed at systematically testing for resources below and around the known reefs, and in the Mt Porter system, and for the discovery of any new mineralised zones which have a surface geochemical expression. The level of expenditure proposed is justifiable, but may well prove to be too modest to do justice to the apparent superior quality of the Project.

4. MT MASSON

4.1 The Project

The Project area is defined by EL9823. Arafura applied for tenure because it was known to be mineralised - it contains the Jessop's and Mt Masson tinfields - and also because of its proximity to Arafura's key Frances Creek area, and because of geological analogies with the latter. This Project was not assessed in the field by Drummond because it was inaccessible during the Wet Season. Additionally, Arafura has not undertaken any field work, and so the assessment relies solely on published documents

and on information available on the public record.

The tenement contains part of the Mount Harris hard rock and alluvial tin field, with historic production from the Jessop's, Billy Can, Mount Masson, Big Drum and Big Julie mines, and a small Au mine known as Tuohy's. (Figure 9 CoProj).

4.2 Overview

There are strong geological analogies between this project area and that of Frances Creek. Given Arafura's success at the latter, a similarly intensive exploration effort is well warranted at Mt Masson. Although EL9823 has more or less been under continuous tenure since the mid 80s, little of the work can be regarded as systematic or thorough. An exception seems to have been a BLEG survey by Newmont: it apparently indicated anomalies of a magnitude and areal dimension similar to those caused by the Golden Honcho mineralisation but, in general, appropriately intense follow-up has been lacking.

In the most northerly two blocks, detailed soil BLEG and base metal assaying have indicated areas worth following up. An intensive effort is also warranted in the south in the Tuohy's mine area.

As all of the data on past exploration of the Jessop's-Mt Masson-Big Julie trend was not able to be accessed by Drummond, it is not possible to be definite about degree of follow-up required. But on evidence at hand, a detailed appraisal and testing of its Au-Sn potential seems warranted - around the lodes, between them, and along strike, especially northerly.

Overall, Arafura's planned programmes and budgets are considered to be appropriate and justified.

5. THE CORONET HILL PROJECT

5.1 The Project

Arafura's EL10004 covers the old Coronet Hill Cu and Ag mining field some 60 kms east of Pine Creek. A step-wise western boundary of the tenement allows access to the majority of the target Coronet Hills Fault. The eastern boundary is the Little Mary River. (Figure 11 CoProj). This Project is not to be confused with the major Au-Pt discovery (as yet undeveloped for political reasons) at Coronation Hill. The latter lies some 25 km NE on a parallel fault zone.

Base metal (Cu, As, lesser Pb, Bi and Zn), Sn, W and precious metal (Ag ± Au) mineralisation occurs in the Coronet Hill area. It is structurally controlled and occurs in a number of sulphide bearing veins within lodes over a strike length of over 4 kms. The area was originally mined for Ag then later for Cu and Sn. The mineralisation is generally regarded as fault-controlled and fault

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parallel.

Two outer sets of quartz-tourmaline veins, named the Eastern and the Western Lodes, converge north-westerly towards the main Coronet Hill Fault and enclose a central set of sulphide-bearing veins. Five of the sulphide-bearing veins overlap each other and are arranged en echelon over the length of the field. The sulphide-bearing veins also converge north-west, and the Main Lode and Kelly's Lode join into a composite quartz-tourmaline, sulphide-bearing vein named the North Lode. With few exceptions all the mineral veins dip steeply in a south-westerly direction (Figure 10 CoProj). Although the quartz-tourmaline veins can attain thicknesses well in excess of a metre, they are commonly less than 30 cm. Much of the North Lode is in siltstone; Kelly's Lode is on the boundary between siltstone and chert; while most of the Main Lode, Coronet Hill Lode and South Lode are within chert. These lodes are usually straight and regular, consisting of silicified chert (or siltstone) and vein quartz with local developments of massive scorodite (an iron-As oxide) or gossan.

Past production of Cu ore came entirely from the Coronet Hill Lode: 252t of 22% Cu and 550 g/t Ag from a swell in the lode at No. 2 Adit, and 27.5t of 18% Cu from a swell in the lode at South Extended Shaft. In outcrop the longest lengths of rich gossan and massive scorodite are found on the Coronet Hill Lode. Mineralisation is both primary and secondary. A grade of 5% Cu is indicated by the available data. Scorodite occurs prominently at the surface.

Sn has been worked on a small scale at the Ross Mine near the Coronet Hill Copper Mine and at the Mary River Camp Mine. The geological setting of the Sn mineralisation is very similar to that of the Cu-Pb-As mineralisation.

5.2 Overview of Past Work

Successive waves of geochemical sampling, combined with mapping in this area of good outcrop, have clearly defined the target base metal and silver zones. Although drilling has been limited, the dozen holes to date have not indicated any reason to believe that the thin mineralised lodes seen at surface may thicken to more economically encouraging widths at depth.

To the east of the Coronet Hill Fault, the surface geochemistry has indicated anomalous - but relatively poorly so - Sn and base metal responses. They remain to be drilled. Although the more favoured BLEG Au analytical technique has not been widely used, the data density with other techniques is such that it seriously downgrades the likelihood of discovery of a Au deposit within the tenement. Drummond cannot see any evidence that would lend

strong support for a search for a higher tonnage/higher grade style of mineralisation such as a Mt Bonnie stratiform polymetallic deposit or a volcanogenic or SEDEX type.

The Sn and W in the lodes may well be a profitable exploration avenue as there are identified long zones in the mineralised structures at a combined grade of interest. Tonnage would be the key and this would likely require the presence of Sn and scheelite laterally into wall rock. There is no evidence in the reports reviewed to indicate that this could not be the case. Drummond made a personal enquiry of a manager of the past explorers and he offered that a key report seems no longer present in NTDME. In it was described some costeans in which the Sn and W were assessed and found to be confined to the gossaneous intervals. Moreover, apparently the gossans "mushroom" laterally at surface and are generally considerably thinner at a metre or so of depth.

Overall, the Coronet Hill mineralised system is inherently interesting because of its length, grades and polymetallic nature. However, surface investigations of it have been intense, and outcrop is good. Drilling density is very low for a system of this size, but results have been disappointing, allowing little cause for optimism that mineralisation widths and/or grades would improve at depth. While a thorough compilation of all historic work is certainly justified, unless targets for superior mineralisation positions can be generated, the only way to assess base metal potential may be an extensive - and expensive - drilling programme.

The Sn and W potential does not appear to have been as strongly assessed in the past as the Au and base metals, and their combined grades are often economically interesting. Drummond considers that they may offer the best potential. In view of the detailed and repetitive programmes which unsuccessfully sought Au, there seems little chance of discovery of a Au deposit that has any significant surface geochemical expression.

6. GEOLOGICAL & MINERALISATION OVERVIEW OF THE REYNOLDS RANGE

6.1 Introduction

EL9672 was granted to McCleary Investments Pty Ltd to search for Au and base metals. It was initially farmed out to Homestake which conducted Au exploration predominantly by taking stream samples for BLEG analysis. Although the results discouraged Homestake and it withdrew, a question does remain about the validity of the assaying.

Unbeknown to Arafura and Homestake, the previous explorer in the area, PNC Exploration (Australia) Pty Ltd (PNC), had discovered the apatite-REE deposit at Nolans

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Bore and had conducted extensive initial exploration on the property. Subsequent Arafura work has concentrated on this aspect, and has resulted in application for a further tenement in which it believes there is potential for discovery of further REE, and of repetitions of the Sabre Au and base metal mineralisation which occurs 70 kms west-north-west of Nolans Bore - outside Arafura's leases.

6.2 Geological Overview

The Reynolds Range is a western section of the Arunta Block or Orogenic Domain, a relatively complex geological terrain.

Known significant mineralisation in the Western Aruntas includes the Sabre base metals discovery, some 70 kms WNW of Nolans Bore (Figure 12 CoProj). Potential for repetitions is considered good in SELA23671. Some 130 km south-east of Nolans Bore the Mud Tank Carbonatite has been intruded. The Arunta Block has lithological correlates with the Granites-Tanami and Tennant Creek Inliers - both of which host significant Au mineralisation. There, Au mineralisation is associated with a chemical sedimentary unit (BIF) within a metamorphosed sequence of mafic volcanics and fine grained clastic sediments. The host unit is of Palaeoproterozoic age and was deformed, metamorphosed and invaded by granitoid and mafic intrusives. Arafura has identified quartz-hematite units in the Reynolds Range for investigation.

6.3 Review of Past Exploration

Examination of Open File records held at NTDME leads to the view that Arafura's Aileron tenements are highly prospective for REE, moderately prospective for base metals and weakly prospective for gold. The principal records prompting this view are outlined below.

(a) BHP Exploration (1981-1983) ELs 2942, 3075, 3084 and 3088s. CR83-15, 83-289

The tenements were taken up principally in a diamond search, with base metals a secondary consideration. BHP withdrew in the light of negative results. Two stream sediment samples were anomalous for cerium (Ce) and lanthanum (La): they drained an area near Mt Finniss in the north-west corner of SELA23671, and which hosts a mapped REE-(U) prospect. This demonstrates the ability to use stream geochemistry in a search for further REE deposits in Arafura's tenements (Figure 12 CoProj).

(b) J Weir (1982-1983) EL3506. CR83-216

Via a scintillometer search, Weir located an allanite-bearing pegmatite vein near Mt Boothby, which is 5 km north-east of Nolans Bore and within SELA23671. The pegmatite is of limited extent and assayed: Ce 4250 ppm, La 3100 ppm and Yttrium (Y) 70 ppm.

(c) BHP Exploration (1983-1984) EL4188. CR84-117

The western half of that tenement lay within the eastern margin of SELA23671. BHP reviewed the BMR 1:250 000 total magnetic intensity contour map for the Napperby Sheet and identified a "bullseye" shaped anomaly of nearly 1 000 nT, the source of which was considered to be a possible carbonatite. It lies just north-east of SELA23671, with a possible repetition inside Arafura's application. Without any outcrop to explain it, the area was applied for and BHP carried out an aeromagnetic survey and follow-up ground magnetometer and gravity traverses. These confirmed the size and location of the anomaly and identified a five to six milligal gravity anomaly. The geophysical anomalies were drill tested by hole OG-1 (total depth 256 metres) which intersected non-magnetic "basement" rocks at 94 metres, and weakly magnetic hornblende-quartz-feldspar gneiss at 213 metres. It was considered that these rocks belonged to the Arunta Complex and were the source of the geophysical anomaly. Analysis for base metals proved negative.

(d) Poseidon Gold Ltd and Exodus Minerals N L (1993 - 1999) EL7343:Relinquished Section. CR99-225

The original large tenement was centred on the Lander River Valley, and almost all of it lay well north-west of Harverson Pass (Figure 12 CoProj). The target was structurally controlled Au and base metal mineralisation. Open File records only relate to the data gathered on areas subsequently relinquished. Strong programmes were undertaken, including airborne geophysical surveys, stream and lag sampling, RAB drilling and geomorphological interpretation, and successive statutory partial relinquishments of the tenement were made. Although Posgold considered that no anomalous geochemical systems had been defined, Exodus states that "...the relinquished portion...is not unprospective...": this comment, presumably, being applicable to the Harverson Pass area.

(e) PNC Exploration (Australia) Pty Ltd (1994-1996) EL8411. CR95-266, 96-187

PNC acquired EL8411 so that it could seek U. In its exploration it discovered the Nolans Bore apatite-REE deposit, and this work is discussed in Section 7. Via regional reconnaissance, airborne radiometrics and ground traversing, PNC found numerous prospects, many of which it considered were of Mary Kathleen or East Alligator style. However, they were apparently too small to justify more detailed work. Despite the discovery of Nolans Bore, PNC relinquished the tenement.

(f) Posgold and Exodus - Sabre Project (EL7343 and EL9278). CR93-007, 94-494, 95-542

While not occurring in Arafura's tenements, the proximity

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of this discovery and its being hosted by units which occur in the tenements justify some consideration of it. As the ground is still held, reports to the NTDME are not on Open file. Drummond has accessed Exodus' public records on the matter.

Mineralisation is hosted by the Lander Rock Beds. The original sediments have been metamorphosed to varying degrees resulting in a mix of sericite, mica, sillimanite and amphibolite schists and garnet cordierite granofels. The principal areas of mineralisation are developed in sericitic alteration zones invaded by a network of narrow anastomosing quartz veins in which a large number of geochemical anomalies have been defined by surface and drill testing. The anomalies are Au, arsenic (As), antimony (Sb) and lesser Pb, bismuth (Bi), Zn, molybdenum (Mo), silver (Ag), Cu and Ni. The principal anomalous zones have been named Sabre and Falchion, and RC drilling has returned such results as 30 m @ 2.5 g/t Au and 16 m @ 2.2 g/t Au. The geochemical anomalies have been defined over a strike length of 17 km, with a width of several kilometres. Although some old shows occur at its eastern end, most of the mineralised area is concealed under Cainozoic cover (Figure 12 CoProj). In this Report, it is termed the Sabre Province.

While it seems that no resource calculations have been published by Exodus, the mineralised system is apparently large and is an important discovery. Exodus considers that the Trans-Tanami regional structure, which westwards hosts the Sandpiper-Kookaburra discoveries, and the Tanami, Granites and Callie mines, also hosts the Sabre mineralisation. The south-easterly continuation of the structure would host Nolans Bore, and presumably the Mud Tank Carbonatite.

6.4 Review of Arafura Exploration

Initial operator Homestake perceived potential for Granites-Tanami style mineralisation associated with that major fluid pathway - the Trans-Tanami structural zone. It was encouraged by the small Au and Cu prospects in the tenement, and by the proximity to the Sabre Province.

The ±1500 sq km of the tenement were covered by 235 BLEG Au samples - a density of about one per six sq km. The results were disappointing, with only 15 samples attaining 0.1 ppb or better. However six of those clustered near the Harverson Pass, with a maximum value of 34.6 ppb and three others attaining 0.3 ppb or better. This anomalous area was followed up during the second year with a programme of detailed stream BLEG sampling (114 samples) and 10 chip samples of rocks of encouraging appearance. Essentially all BLEG samples recorded results below the level of detection, including

a re-sampling of the site which had previously returned 34.6 ppb Au. Homestake then withdrew, apparently unaware of PNC's Nolans Bore discovery.

Drummond considers that the BLEG survey was arguably ineffective. The 1997 survey used a minus 4mm fraction, and the 1998 a minus 2mm fraction and this may account for some difference. Nevertheless since the first survey found a cluster of (admittedly weak) anomalies, and the second found none, it seems to point to a problem with one of them. Moreover, Homestake's 1997 survey covered the area around Wickstead Creek which was found to be weakly anomalous by Poseidon, but Homestake found all of its assays to be below level of detection. In summary, given Homestake's initial wide sampling density and the question over the reliability of the results, the Harverson Pass area may still have moderate potential for Au mineralisation, as might the Wickstead Creek area. Since Homestake's departure, Arafura has concentrated its effort both at Nolans Bore and in evaluation of NTDME geophysical data in an endeavour to define prospective targets for REE. The application for SELA 23671 results.

THE WESTERN ARUNTA PROJECTS

7. THE NOLANS BORE APATITE (ROCK PHOSPHATE) AND RARE EARTH ELEMENTS PROJECT

7.1 Introduction

On current information this key project in Arafura's portfolio has the potential to supply a significant proportion of world demand for rare earths and for production of rock phosphate. Arafura has proposed a major work programme with the aims of defining reserves, establishing a metallurgical process and completing feasibility within the first two years.

Drummond has reviewed the "Rare Earth Market Overview Report" by D J Kingsnorth, which is presented elsewhere in the Prospectus, and has discussed it with its author. That author is an expert in the Rare Earths field and Drummond has relied upon this Report, and other relevant sources, in order to arrive at the conclusion that the Nolans Bore discovery is of likely strong future economic significance.

The reader of this Geologist's Report is referred to that Rare Earth Market Report for an understanding of the uses, markets and values of the REE as discovered at Nolans Bore.

7.2 Locality, Services & Climate

The Nolans Bore apatite/REE prospect is located in the Reynolds Range 135 kilometres north-northwest of Alice Springs and 1160 kilometres south-southeast of Darwin. The prospect is centred on Nolans Bore which is posi-

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tioned at approximately 131°14'E longitude, 22°35'S latitude. The nearest area of occupation is the Aileron Roadhouse which is located on the Stuart Highway, 13 kilometres south-east of the prospect and 133 kilometres along the Highway from Alice Springs. A well maintained station track extends from the Roadhouse to Nolans Bore (Figure 12 CoProj).

Alice Springs (pop. 25,000) is serviced daily by jet aircraft from several Australian capital cities (Sydney, Adelaide, Brisbane, Perth and Darwin) as well as from Cairns in the north-east of the continent and Broome in the north-west. Because of its location mid-way between Adelaide and Darwin the town is also well serviced by road transport and interstate bus services. A standard gauge railway line joins Alice Springs to Port Augusta and Adelaide.

Construction of the extension of this line 1500 kilometres north to Darwin is underway and it is expected to be completed late in 2003. The line will pass approximately 60 kilometres east of Nolans Bore. A natural gas pipeline from the Amadeus Basin (west of Alice Springs) to Darwin passes five kilometres east of the prospect.

The climate is characterised by long hot summers when temperatures regularly exceed 40°C, and short mild to cool winters. The average rainfall is about 280mm, most of which falls between October and March, but both frequency and amount are erratic. Year-round access is anticipated except for short periods after storms.

7.3 Tenements

Arafura's tenements, their size, grant status and NTDME annual Expenditure Covenants are as tabulated. They are shown on Figure 1.

(A block is an area defined by one minute of longitude

Title	Size	Status	Covenant
EL9672	10 blocks	Granted	\$132,500
SELA23671	500 blocks	Application	\$305,000

*EL9672 automatically expires on the grant of SELA23671 and the \$132,500 is part of the \$305,000

and one minute of latitude and varies between 3.0 and 3.5 sq km in the Northern Territory, depending upon latitude.)

7.4 Discovery History

Elevated levels of REE hosted by massive apatite (actually fluorapatite: a calcium fluoro-phosphate) were discovered in the Nolans Bore area by PNC in 1995 (Thevissen, 1995). This occurred during follow-up of an airborne radiometric anomaly as part of a U exploration program. Total REE levels of 5-7% were reported from selected grab samples of apatite which crops out sporadically within an area some 1700x800 metres in extent around the Bore. A strong ground-radiometric response

correlates closely with this area. After preliminary mapping and sampling, PNC ceased exploration of the prospect to concentrate its efforts elsewhere on its core activity of U exploration - despite recommendations to the contrary by Thevissen. PNC's EL8411 was relinquished and the ground was taken up as EL9672 by Mr McCleary - it then being viewed as prospective for Au. Homestake Gold of Australia farmed in and assumed management of EL9672 in 1996 but did not become aware of PNC's discovery before it withdrew in 1998.

Knowledge of the existence of the prospect came to light again during a literature search of previous exploration within EL9672 carried out by Mr John Goulevitch of Exploremin Pty Ltd in April, 1999. With Mr McCleary's approval, details of the previous exploration were subsequently presented to Hydro Agri, a division of Norsk Hydro a.s. It commissioned Exploremin to carry out additional geological reconnaissance and comprehensive sampling of all outcropping apatite in mid-1999. These investigations identified potential for a substantial near-surface resource of REE-enriched apatite which could form the basis for an REE extraction project, possibly with an associated small phosphate fertiliser production facility.

Arafura proceeded with a costeaning programme across the two main apatite zones in January, 2000 and with a RC drilling programme in early 2001.

7.5 Work Done

(a) PNC

Between 1994 and 1995 PNC undertook the following exploration (CR95-66, CR96-187):

- Its EL was covered by an airborne radiometric and magnetic survey, with line spacing of 200 metres. Data processing delineated radiometric anomalies. Ground checking of them discovered the Nolans Bore apatite. Gridding and mapping determined the outcrop distribution of apatite (Figure 13 CoProj). Ground magnetics and radiometrics were surveyed, and the association between apatite outcrop distribution and total count radiometrics was delineated. Geochemical scans determined the basic REO distribution. Petrological studies were undertaken.

(b) Homestake

Its BLEG Au survey did not reveal any Au anomalism in the vicinity of Nolans Bore in EL9672. (Stewart J.L., 1997, Lindsay-Park, K. 1998).

(c) Norsk Hydro

- Surface apatite outcrops were systematically sampled and mapped (Goulevitch, 1999).
- Thirty two apatite rock samples were analysed for a

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broad spectrum of potentially advantageous and potentially deleterious elements. Relatively pure concentrates of apatite were prepared from three composite samples for further investigation.

• Conclusions drawn from these investigations were :

- ◆ Areas of apatite rock which crop out around Nolans Bore suggested the presence of potentially significant resources of massive apatite rock suitable for fertiliser production and REO recovery.
- ◆ Analyses of composite chip samples from all areas of apatite outcrop demonstrated consistently high levels of phosphate (P_2O_5) and REOs and demonstrate that the apatite rocks contain, on average, around 95% apatite mineral. They graded approximately 33% P_2O_5 and greater than 7% total REEs (greater than 8% total REOs). The host is fluorapatite.
- ◆ The dominant REEs are Ce (avg. 3.2%), La (avg. 1.4%), neodymium (Nd) (avg. 1.6%), praseodymium (Pr) (avg. 0.43%) and samarium (Sm) (avg. 0.16%) while significantly elevated levels (avg. 0.01-0.10%) of dysprosium (Dy), europium (Eu), gadolinium (Gd) and Y are also present.
- ◆ Elevated levels of barium (Ba) (1400 ppm), strontium (Sr) (3100 ppm), Th (7500 ppm) and U (500 ppm)

were recognised to be present. As they may be deleterious, it was recognised that their presence will need to be addressed in the metallurgical circuit design.

- ◆ Other than Pb (150 ppm), base metal levels in the apatite rock are low - in particular cadmium (Cd) is less than 1 ppm.
- Subsequent testing of apatite samples by Norsk Hydro did not identify any attributes which would render the material unsuitable as a source of REE's, provided Th and U waste products were disposed of in accordance with practices acceptable to Australian statutory authorities. Advice in this regard from an independent Australian authority (confidential report made available to Drummond for review) on the disposal of radioactive waste was essentially that the radioactive nature of the apatite and of process plant waste would not prevent the project from going ahead but that the radioactivity will need to be addressed in the design of the plant and in plant operation. It also pointed out that specific documentation and approvals would be required from relevant authorities.
- An Aboriginal Sacred Sites Survey of the Nolans Bore area was commissioned and was carried out by the Aboriginal Areas Protection Authority. A formal AAPA

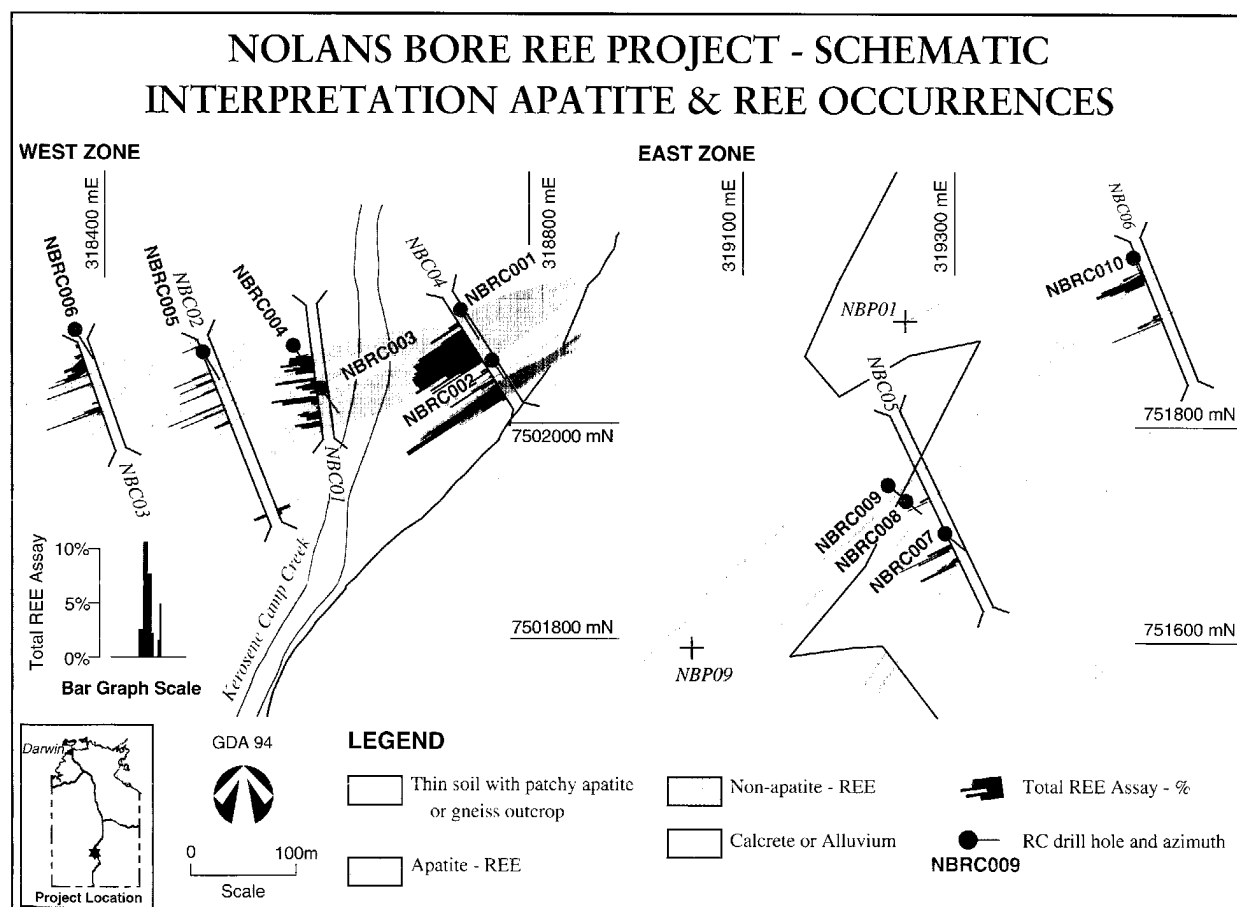


Figure 4

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Certificate was subsequently issued. Three areas of significance were identified in the 32 square kilometres surveyed (10 EL blocks). These three areas are considered by Arafura to be sufficiently removed from the zones of apatite mineralisation so as not to hinder subsequent exploration or development of the known deposits.

The area cleared extends from 2 kilometres west of the known deposits through to the Amadeus Basin-to-Darwin gas

Table 7.1 : Significant Mineralised Intercepts, 1999 Costean Programme

Costean		From (m)	To (m)	Interval (m)	REE (%)
NBC01		11.1	78.2	67.1	1.51
NBC01	Incl	34.8	39.1	4.3	3.72
NBC01	&	46	56	10	1.82
NBC01	&	62	78.2	16.2	2.20
NBC03		77.2	92	14.8	1.83
NBC04		26.3	112	85.7	3.66
NBC04	Incl	35.1	69.5	34.4	5.76
NBC04	&	86	112	26	3.71
NBC04	Incl	95	109	14	5.69
NBC04	Incl	98	105.3	7.3	8.78
NBC05		132.9	136.5	3.6	4.05
NBC05		145.9	152.6	6.7	2.15
NBC06		31.8	41	9.2	3.56

Table 7.2 : Assay Detail in the Higher Grade Intervals, Costeans NBC01-NBC06

Costean	From (m)	To (m)	Interval (m)	ΣREE (%)	Ce (%)	La (%)	Nd (%)	Pr (%)	Sm (%)	Y (%)
NBC01	34.8	39.1	4.3	3.72	1.78	0.76	0.77	0.22	0.09	0.06
NBC02	40.7	42.2	1.5	3.47	1.64	0.70	0.75	0.21	0.08	0.05
NBC04	26.3	112	85.7	3.66	1.77	0.73	0.74	0.22	0.09	0.05
NBC04 Incl	35.1	69.5	34.4	5.76	2.80	1.16	1.16	0.35	0.15	0.09
NBC04 &	86	112	26	3.71	1.80	0.73	0.77	0.22	0.10	0.05
NBC04 Incl	95	109	14	5.69	2.78	1.11	1.18	0.34	0.15	0.08
NBC04 Incl	98	105.3	7.3	8.78	4.30	1.72	1.79	0.52	0.23	0.12
NBC05	132.9	136.5	3.6	4.05	1.95	0.78	0.88	0.24	0.11	0.06
NBC06	31.8	41	9.2	3.56	1.76	0.69	0.71	0.22	0.09	0.05

pipeline, about 5 kilometres east of the Bore. As the route of the pipeline had previously been cleared of Aboriginal Sacred Sites, a site-free corridor has been established between the apatite deposits and the Stuart Highway, which crosses the pipeline 5-6 kilometres north of Aileron Roadhouse.

(d) Arafura

- Subsequent to Norsk's withdrawal, Arafura opened up the project area with a costeaning programme under the supervision of John Goulevitch (Goulevitch, 2000). Six costeans, with a total length of 888 metres, were dug as well as nine test pits. The locations are shown on (Figure 4). One hundred and seventy eight costean and pit samples were systematically collected and assayed for all REE, as well as Sr, U, Th, Al, calcium (Ca), iron (Fe) and phosphorus (P).
- Twelve RC drill holes totalling 856 metres were completed at Nolans Bore in April-May, 2001. Ten of these holes were drilled directly under the six costeans excavated in 2000, to test the vertical continuity of fluorapatite-hosted REE mineralisation identified in those costeans. The remaining two holes tested new targets away from the costeans. (Goulevitch 2001). Disposition of holes is shown in Figure 13 (CoProj) and Figure 4.

A comprehensive assaying programme was undertaken, which also included appropriate check assaying by a separate laboratory, and different assaying techniques.

7.6 Discussion of Results

(a) Geochemistry & Assays : Costeans

The assaying for REE involved a partial digestion technique and this suggests potential for additional REE content in non-acid-soluble minerals such as allanite and epidote. Preliminary XRF rock analyses suggest up to 10% more REE may be present in some samples than has been determined by partial digest analysis.

Table 7.1 lists the better REE assay intercepts from the costeans. Table 7.2 breaks the assays down on an elemental basis for the principal REE elements.

The 1999 Norsk/Exploremin work determined an average total REE grade of over 7.0% in outcropping apatite. On a per element basis, Table 7.3 indicates the percentage breakdown of that sum figure.

(b) Geochemistry & Assays : RC Drilling

Drummond has reviewed Arafura's sampling, assaying and check assaying procedures and is satisfied that they meet or exceed industry standard at this early stage of investigations. While the samples were not always of optimal quality, and while there are some discrepancies in check assays between different time periods and between laboratories, there is nothing to indicate that there is a bias towards over-estimation of grades.

As Arafura has chosen a partial acid digest only those REEs which are acid soluble report for assaying; hence there is an in-built conservatism in the assays in the Tables.

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The RC drilling successfully established geological and geochemical continuity of the REE mineralisation under the costeans to vertical depths in excess of 60 metres below the surface. In the deepest hole completed, mineralisation was intersected as far as 85 metres below the surface. Although some fluorapatite dykes intersected in the costeans were not intersected in the drill holes, this seems more than balanced by new dykes which were intersected under barren parts of some costeans. Mineralisation remains open at depth below all costeans and drill holes. Significant intercepts of REE mineralisation in the drill holes are listed in Table 7.4.

(c) Geology

Figure 13 (CoProj) summarises the surface geology.

Table 7.3 : Elemental Distribution of REEs in Nolans Bore Apatite Outcrop

Element	Assay (ppm)	% of Total REE Assay
Ce	33 633	46.26
Dy	231	0.32
Er	75	0.10
Eu	295	0.41
Gd	753	1.04
Ho	32	0.04
La	14 239	19.59
Lu	5	0.01
Nd	16 406	22.57
Pr	4 402	6.06
Sm	1 653	2.27
Tb	64	0.09
Tm	8	0.01
Y	46	1.16
Yb	42	0.06
Total		99.99

• Fluorapatite-REE Mineralisation

The costeaning indicated that there are at least four styles of REE mineralisation which have to date been recognised at Nolans Bore (Goulevitch, 2000).

- ♦ Most obvious are the numerous massive fluorapatite dykes which intermittently crop out in two distinct zones. These were well exposed in the costeans where they consistently return high REE grades (3-6%) (Figure 4).
- ♦ Very high grade REE mineralisation (7-10%), as found in the kaolinitic apatite-poor rocks in the southern part (98-105.5 metres) of NBC04 (Figure 5).
- ♦ Moderate grade, calc-silicate hosted apatite-allanite-epidote REE mineralisation (1-3%), as intersected in the northern part of NBC03 and southern part of NBC02.
- ♦ Zones of low grade REE mineralisation (0.5-1.5%) in gneisses and kaolinite-altered rocks adjacent to the fluorapatite dykes and adjacent to mylonite zones, as found in NBC04, NBC01 and NBC02.

At this stage of the investigation the fluorapatite dykes offer the best potential to establish an economic resource of REEs and phosphate. However the drilling indicates that REE hosted by kaolinite-quartz-clay rock may be more widespread than was revealed in the costeans.

Individual dykes vary from 0.3-35 metres in true thickness. They trend generally NE and dip steeply (65-90°) to the NW. Some dykes are at least several tens of metres long and some possibly as much as several hundreds of

Table 7.4 : Summary of Significant Drill Hole Intercepts, Nolans Bore

Hole No.	From (m)	To (m)	Interval (m)	REE %	Ce %	La %	Nd %	Pr %	Sm %	Gd %	P %
NBRC001	40	66	26	4.94	2.39	1.06	0.99	0.29	0.11	0.05	11.1
NBRC001	70	81	11	2.86	1.37	0.64	0.56	0.17	0.07	0.03	6.1
NBRC001	93	100	7	4.74	2.30	0.98	0.95	0.28	0.11	0.05	11.8
NBRC002	0	14	14	3.69	1.75	0.79	0.77	0.22	0.09	0.04	7.6
NBRC002	20	27	7	6.26	2.97	1.31	1.33	0.37	0.14	0.06	2.6
NBRC002	33	37	4	3.27	1.62	0.68	0.63	0.19	0.08	0.03	1.49
NBRC002	42	48	6	7.24	3.53	1.45	1.53	0.43	0.16	0.07	2.53
NBRC003	0	10	10	1.36	0.65	0.30	0.27	0.07	0.03	0.01	2.93
NBRC003	16	24	8	3.09	1.45	0.71	0.61	0.18	0.07	0.03	6.4
NBRC004	18	24	6	3.20	1.45	0.72	0.67	0.20	0.08	0.04	6.8
NBRC004	36	40	4	3.37	1.52	0.78	0.70	0.21	0.08	0.04	7.3
NBRC004	45	55	10	1.16	0.52	0.27	0.24	0.07	0.03	0.01	2.4
NBRC004	58	66	8	2.87	1.30	0.69	0.57	0.17	0.07	0.03	6.0
NBRC005	23	24	1	3.57	1.62	0.83	0.74	0.23	0.08	0.04	8.0
NBRC005	56	69	13	1.12	0.50	0.26	0.25	0.07	0.03	0.01	2.9
NBRC006	29	44	15	2.04	0.93	0.49	0.40	0.13	0.05	0.02	3.3
NBRC007	29	33	4	3.41	1.61	0.69	0.72	0.23	0.08	0.04	8.9
NBRC007	45	49	4	3.02	1.42	0.60	0.65	0.20	0.08	0.04	10.9
NBRC008	0	7	7	3.89	1.80	0.84	0.81	0.26	0.09	0.04	9.9
NBRC008	22	24	2	2.95	1.34	0.66	0.63	0.20	0.07	0.03	8.0
NBRC010	16	20	4	3.37	1.64	0.71	0.67	0.21	0.08	0.03	8.4
NBRC010	34	40	6	5.05	2.21	0.90	1.34	0.39	0.14	0.05	12.8
NBRC010	43	47	4	3.83	1.62	0.87	0.92	0.28	0.09	0.04	10.0
NBRC011	3	11	8	1.38	0.57	0.32	0.33	0.10	0.04	0.02	4.1
NBRC012	9	11	2	2.21	0.96	0.61	0.43	0.14	0.04	0.02	4.9

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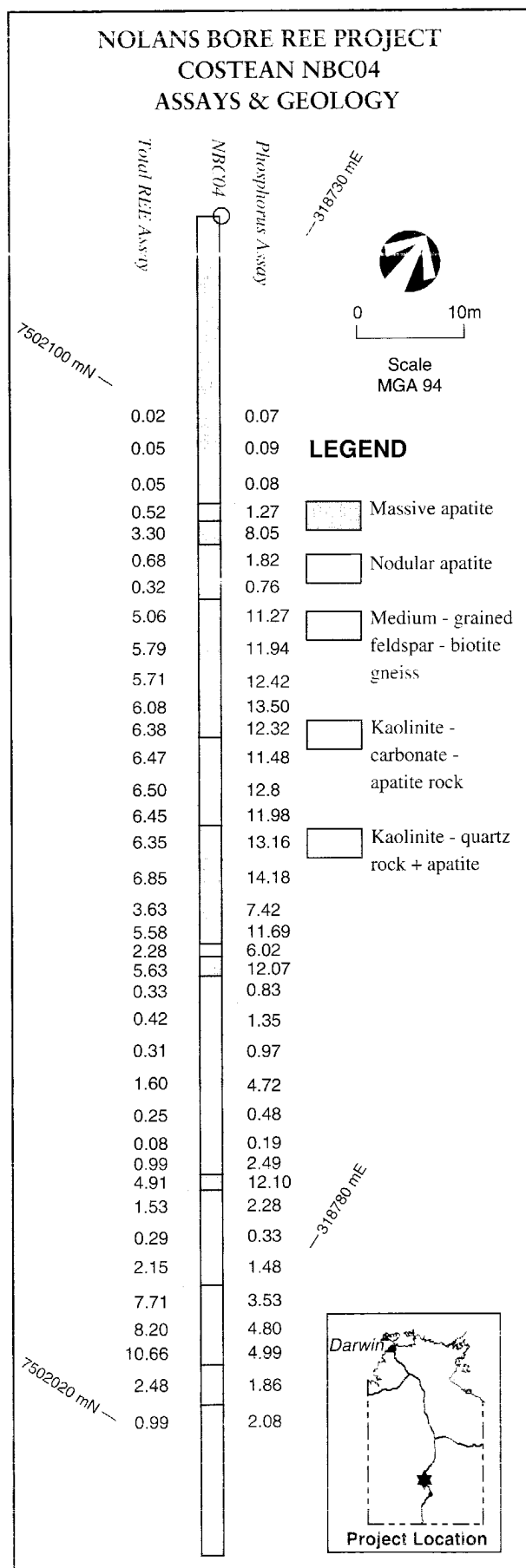


Figure 5

metres long. On the basis of the observations in NBC04 and the Al analyses of all dyke samples, kaolinite alteration is associated with the dykes. A magmatic intrusion origin, as opposed to hydrothermal replacement or infill, is favoured by Exploremin for the fluorapatite dykes by the evidence to date. Based upon external expert advice, it considers that the overall geochemistry is consistent with carbonatite-associated magmatic activity.

Detailed mineralogical investigations commissioned by Arafura have revealed that the very high grade REE mineralisation (7-10%) in NBC04 (Figure 5) and NBRC02 (Figure 14, CoProj) is due to the presence of abundant cheralite, an acid-soluble phosphate mineral which has a much higher REE/P ratio than fluorapatite. The studies have also shown that a large proportion of the REE in the massive fluorapatite dykes also derives from minor amounts of cheralite which occur as late microveinlets cutting across the fluorapatite. The remainder of the REE occurs in the crystal lattice of the fluorapatite.

Calc-silicate-hosted apatite-REE mineralisation appears to occur where fluorapatite dykes intrude calc-silicate units. A metasomatic or hydrothermal skarn-like origin is consistent with the current evidence. There is potential for substantial deposits of massive moderate grade skarn-like mineralisation wherever the calc-silicate units are transgressed by the fluorapatite dykes.

Elevated though low grade REE mineralisation has been identified by the analytical results in country rocks adjacent to the thicker fluorapatite dykes in NBC04 and NBC01 and adjacent to kaolinised and mylonite zones in NBC01, NBC02 and NBC04. The tenor of this style of mineralisation and the associated elevated levels of P suggest that the REEs are apatite-hosted.

• Host Rocks

Identification of the immediate host rocks to the apatite-REE mineralisation at Nolans Bore is at an early stage because of the extent of the weathering in the costeans. They are dominated by K feldspar-biotite gneiss. Less common hosts are medium-grained meta-biotite-granite, coarse-grained meta-granite, very coarse-grained biotite granite/pegmatite, thin (0.3-1 metre) dykes of fine-grained biotite meta-diorite, calc-silicate gneiss and granofels. Strong local kaolinisation of the host rocks is currently thought by Exploremin to be due to alteration rather than weathering though it considers that the latter may be responsible for some dispersion of clay into the near surface fluorapatite.

Outside of the two main mineralised zones, especially to the north and south along the western bank of Kerosene Camp Creek, there are extensive areas of outcropping feldspar-quartz-biotite gneiss. Meta-sandstone/quartzite

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is abundant to the west of the deposits and magnetite-bearing biotite-hornblende-quartz-feldspar gneiss outcrops three kilometres north of the prospect coincident with a strong magnetic signature.

(d) Distribution of Fluorapatite-REE Mineralisation at Nolans Bore

All of the available geological data along with the analytical results from the costean and pit samples have been incorporated into a schematic interpretation of the distribution of apatite dykes and other REE mineralisation at Nolans Bore (Figure 4) (adapted from Goulevitch, 2000). At this stage of the exploration of the prospect, the REE mineralisation and apatite dykes can still be separated into two zones, viz. the West Zone which encompasses the outcrops and costeans on either side of Kerosene Camp Creek; and the East Zone which covers the outcrops and costeans within and adjacent to the Nolans Bore Yards.

The drilling has successfully demonstrated reliable continuity of fluorapatite-REE mineralisation to at least 60 metres from the surface under all six costeans and to at least 85 metres from the surface in one case. Extrapolation to at least 100 metre depth would seem quite justifiable to Drummond.

Continuity of mineralisation established by the drilling below the costeans provides greater confidence that mineralisation is continuous between adjacent costeans, especially between NBC04 and NBC01.

Fluorapatite dykes are more strongly developed in gneiss, schist and calc-silicate host rocks than in coarse grained pegmatoidal biotite (?meta-)granite. Kaolinite alteration of host rocks is generally associated with the REE mineralisation.

Figure 5 indicates the distribution of REE and P mineralisation in costean NBC04, and Figure 14 (CoProj) is a section showing REE mineralisation in that costean and the two holes drilled below it.

The West Zone is at least 500 metres long and 100-150 metres wide. It trends E-W and has two separate domains. The western domain, which has overall dimensions of 200 metres by 80-100 metres, is characterised by a swarm of relatively narrow (0.3-2.5 metres) NW dipping fluorapatite dykes, 50-100metres long. Accumulated dyke thickness in costeans NBC02 and NBC03 is 15-20 metres. The domain also includes a 15-20 metre wide zone of lower grade, more pervasive apatite-REE mineralisation where the dyke swarm

intersects a calc-silicate unit in the host rocks. The eastern domain of the West Zone straddles Kerosene Camp Creek and encompasses the broad mineralised intervals in NBC01 and NBC04. If continuous between the two costeans, the ENE trending mineralised zone is 70-80 metres wide and in excess of 200 metres long. Its eastern extent is obscured by palaeoalluvial gravels and sand which are more than 4.5 metres thick in places. It may extend to include the apatite outcrops near the southern end of NBC02 though this could be part of a poorly defined third domain encompassing fluorapatite dyke and calc-silicate hosted mineralisation under Kerosene Camp Creek. Figure 5 indicates distribution of REE assays and rock types in costean NBC04 - the best mineralised one dug to date.

The dyke swarm which comprises the East Zone mineralisation is known from outcrop mapping, trenching and pitting to be 400 metres wide and 1000 metres in a SW-NE direction. Individual dykes could be up to 9 metres thick and up to 400 metres long if dykes intersected in NBC05 and NBC06 are continuous through the intervening area. Part of the zone is obscured by surficial calcrete which crops out around the Bore and was intersected in the northern part of NBC05 and in pits NBP08 and NBP09. Accumulated dyke thickness in the centre of the zone exceeds 20 metres. As Arafura's costeaning and pitting could not penetrate through the calcrete between the East and West Zones, exploration of this area awaits drilling.

(e) Assessment of Mineral Resources

Arafura (Goulevitch 2001, a Competent Person as defined in the JORC Code) has estimated an identified mineral resource on the basis of all data at hand.

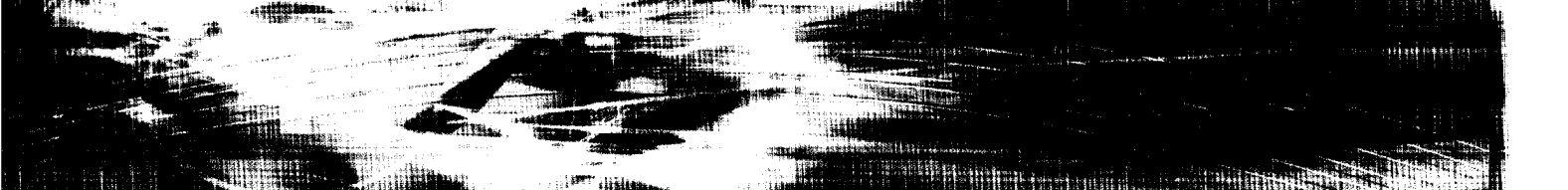
The estimates of IDENTIFIED MINERAL RESOURCES at Nolans Bore, using a 1% REE cut-off grade, are listed in Table 7.5.

All of these resources are within 100 metres of the surface and more than 80% are within 60 metres of the surface. Mineralisation attributable to costeans NBC01 and NBC04 and associated drill holes (NBRC001-004) constitutes 57% of the Identified Resources (2.2 MT at 3.9% REE or 4.5% REO).

Drummond has satisfied himself as to the rationale and methodology used by Goulevitch, but has not produced a separate and independent resource estimate: the next round of drilling is more than likely to change significantly either or both of resource category and size.

Table 7.5 : Identified Mineral Resources, Nolans Bore, June, 2001

Category Inferred Resources	Tonnes x 1000	Total REE %	Ce %	La %	Nd %	Pr %	Sm %	REE/ (Th+U)
Western Zone	2660	3.52	1.69	0.75	0.58	0.35	0.08	9
Eastern Zone	1160	3.28	1.51	0.66	0.60	0.35	0.08	6
Total	3820	3.44	1.63	0.72	0.59	0.35	0.08	8



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7.7 Overview

- A new REE deposit has been discovered which could potentially be of major significance in that it may be able to provide a significant proportion of annual world output. As outcrop is generally poor and as costeaning and drilling have largely been confined to testing areas of known REE outcrop there is a well justified expectation that the resource base could increase significantly with further infill, lateral and deeper drilling.
- As assaying to date has been for acid-soluble REEs, overall grade may improve.
- Arafura has stated that it seeks to also produce a phosphate product for the fertiliser industry.
- Before mineable reserves can be estimated, and project economics derived, there needs to be attention given to metallurgical testwork to determine processing routes and capital and operating costs; to desired concentrate type and quality; to markets; and to waste disposal issues.

7.8 Proposed Programmes and Budgets

Arafura has indicated that advancement of this Project to early mineable status will require attention to the following broad tasks :

- Collection of a bulk sample.
- Metallurgical investigations.
- Ore reserve definition drilling and costeaning.
- Pre-feasibility and marketing studies.

Arafura has proposed an evaluation programme and budget to be undertaken in two years, and presented elsewhere in this Prospectus. As the project is currently at the initial stages, it is inevitable that changes will occur in the future as knowledge develops. In particular, the status of any Ore Reserve estimate will be a function of mineralisation continuity, as demonstrated by the results of the planned testwork. Drummond considers the programme and budget to be justifiable and appropriate.

8. THE AILERON REGIONAL PROJECT

8.1 Overview of Potential

The Aileron Regional Project consists of the tenement holdings in the Reynolds Range beyond the immediate environs of the Nolans Base discovery. The latter and other known REE prospects imply a good chance for further REE discoveries of potential economic size and tenor.

While it is possible to have reservations about the quality and sampling density of some of the previous stream geochemical work, it seems rather likely that a zone of mineralisation of the areal extent and tenor of the Sabre Province would have been located if it occurred within the uplands and ranges in Arafura's tenements. However

there are significant recessive areas in the tenements, which are potentially underlain by the weathered Lander Rock Beds which host Sabre. The NTDME aeromagnetic data indicates potential repetitions of the Sabre Province south-westerly into the Arafura tenements especially within SELA23671 under the cover and flood plain associated with the Hanson and Woodforde Rivers. Potential areas underlain by Lander Rock Beds are indicated on Figure 12 (CoProj) and Drummond would view these as a priority. The Woodforde River Beds are a carbonate and calc-silicate unit which contain goethitic units, and also warrant exploration.

THE DAVENPORT PROJECTS

9. GEOLOGICAL & MINERALISATION OVERVIEW OF THE DAVENPORT PROVINCE

9.1 Introduction

Arafura has taken a major ground position in the Davenport Province, the south-easterly part of the Proterozoic Tennant Creek Inlier. Its key holding is tenure over most of the Kurinelli goldfield, a large mineralised area, as attested to by very widespread on-going alluvial Au recovery by metal detector miners. Recent acquisition of detailed aeromagnetic data - as part of the NTDME Exploration Initiative, and with infill flying paid for by Arafura - has resulted in the definition of a discrete geological entity that envelopes the Kurinelli mineralisation. In this Report the term "Kurinelli Zone" is defined for it.

Although many companies have held tenure in the Davenport Province, most work has been superficial, and drilling is almost totally absent. The recent acquisition of extensive stream geochemical information generated by BHP Gold in 1991 allows Arafura the potential to prioritise its target areas within the Davenports. The data was not on the NTDME Open file, and was kindly provided by Newcrest Mining Ltd.

The most south-easterly part of the Davenport Province is covered by Arafura's EL9709 and EL22783 - its Supplejack Project. It is dealt with as a discrete entity in this Report (Section 11), as it is not contiguous with the remainder of Arafura's holdings, and does appear to have a separate geochemical signature.

9.2 Tenements

Arafura's tenement holding at Kurinelli is detailed on Figure 6. Surrounding its Mineral Claims in the central Kurinelli goldfield, Arafura was the successful tenderer for a Ministerial Authority (AC74) over 224 blocks (624 sq kms) which formerly comprised RO1387. Around AC74, Arafura has an adjacent Exploration Licence 9701 of 316 blocks (950 sq kms) to the east; has applied

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for an additional Exploration Licence, 9710 of 119 blocks (382 sq kms) to the west and south; and has applied for EL9745 193 blocks (619 sq km) in the Murray Downs area to the south-west. (Figure 15 CoProj).

9.3 Principal Mineralisation Occurrences

Gold

Total recorded Au production to 1977 in the Davenport Province totalled only about 15 kg (450 ozs). Subsequent to that, alluvial production using metal detectors has reputedly recovered about another 150 kg (5,000 ozs).

Apart from Kurinelli, and the Great Davenport and Aztec mines at the southern end of the Kurinelli Zone, the more significant Au shows are (Figure 15 CoProj):

- Kurundi - quartz vein hosted Au in shale, siltstone and basalt of the Edmiringee Volcanics.
- Power of Wealth - shoots in a concordant quartz vein in Kurinelli Sandstone.
- Crystal Mine, Hatches Creek - quartz veins in a mafic intrusive.

Tungsten

- At the Hatches Creek field, the lodes occur in steeply dipping quartz veins in shear zones which cut both folded sedimentary and volcanic rocks of the Hatches Creek Group and dolerite and gabbro intrusives. There is minor

associated Bi, Cu, Fe, Mo and Sn. Total production of concentrate was around 3000 t.

- The Wauchope tungsten field has a recorded production of 1430 t of concentrate from strata bound quartz veins within the Taragon Sandstone.
- At the Mosquito Creek field, concentrate production is uncertain, but seems relatively small. Mineralisation occurred as veins in the granite.

Base Metals

Production has been minimal with principal prospects to date being :

- Silver Valley - Pb-Ag in quartz veins in the Edmiringee volcanics.
- Hatches Creek where Cu was produced in the oxide zone as an associate of the W.
- The Cobalt Bloom prospect is a Cu, Zn, Pb, Ba and manganese (Mn) show described in Section 11, Supplejack.

Hydrocarbons, Uranium, Phosphate & Turquoise

Although the Davenports and surrounding younger basins can be considered prospective for these commodities, Arafura has advised that it does not regard them as priority targets at this time.

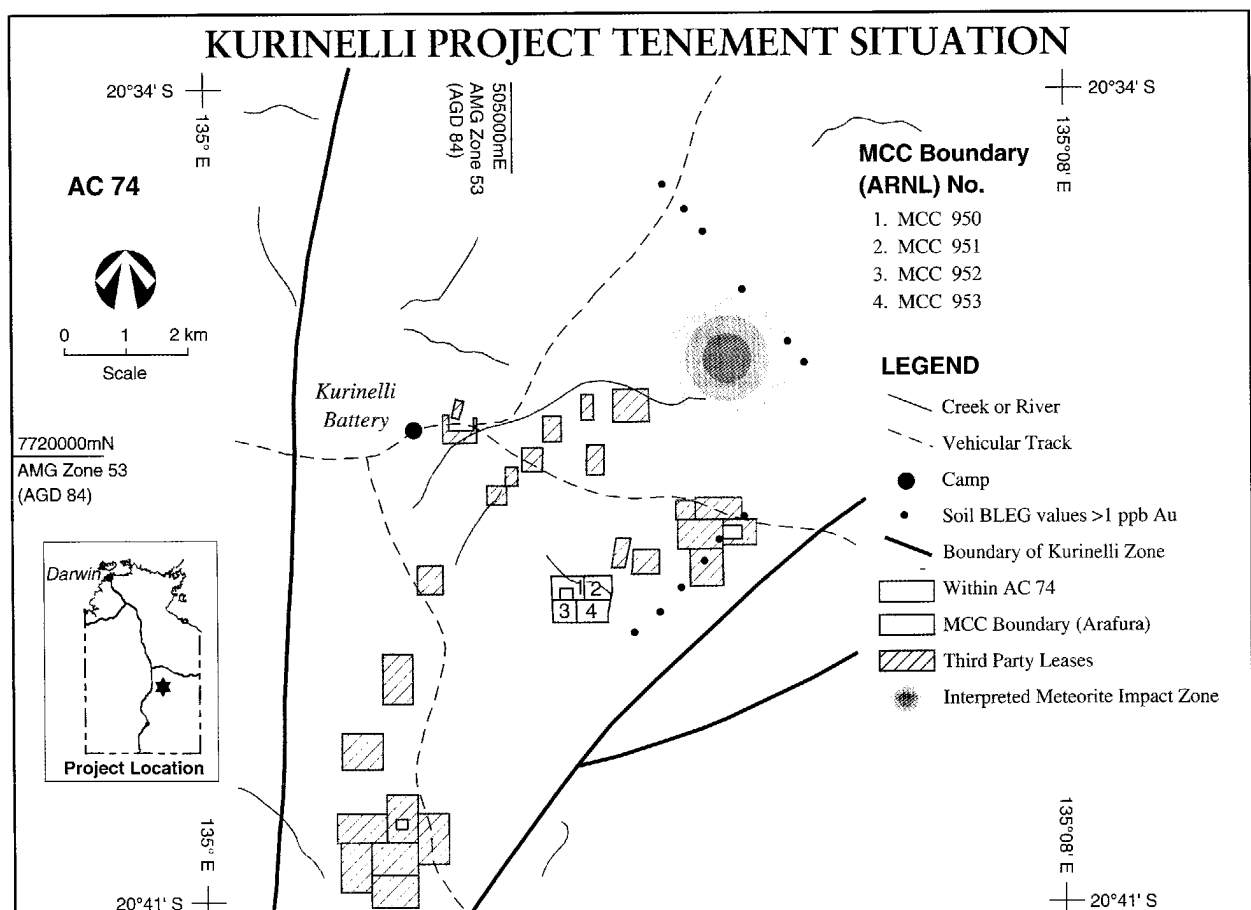
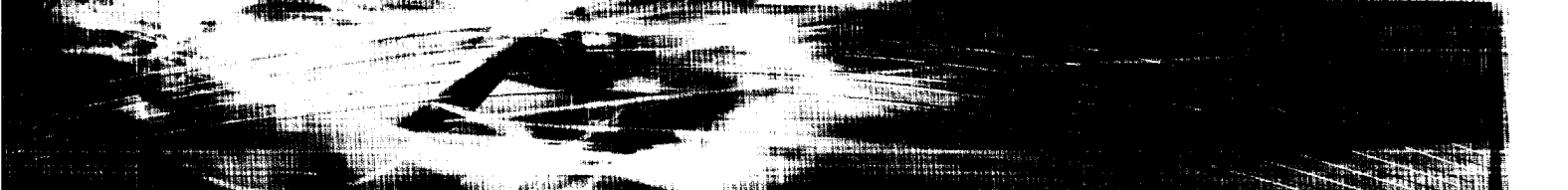


Figure 6



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Diamonds

The NTGS detailed aeromagnetic surveys have indicated anomalous responses in adjacent areas which have been interpreted as possibly being covered by kimberlite intrusions, and so which may contain diamonds. The Arafura tenements should be equally as prospective and interpretation of the geophysical data is warranted.

9.4 Target Styles and Search Techniques

Apart from the potential of the Kurinelli Zone, the other known mineralisation, the historic exploration results, and the geology would indicate that the following styles of mineralisation would be valid targets.

1. Mt Isa/Century-style sediment - hosted base metals in favourable stratigraphic units.
2. Volcanogenic or sedimentary exhalative mineralisation in units laid down under water.
3. Epithermal Au proximal to volcanic centres.
4. Telfer-style sediment-hosted Au.
5. Primary diamond deposits.

The bulk of the stratigraphic sequence is comprised of sandy sediments, now quartzites, and intrusive and extrusive igneous rocks. They tend to outcrop well, to constitute the higher ground, and to provide eroded material which blanket covers the softer units which would conceptually host at least the first two of the above styles. Given the degree of historic prospecting and exploration, it is considered unlikely that there is a major surface or near-surface orebody in the resistant, outcropping units.

Arafura will need to concentrate its search in the softer, more chemically reactive and largely covered units (the recessive" units) such as the Frew River Formation. Over those sequences, and at Kurinelli, Arafura must use a combination of geology, the newly acquired airborne magnetics, and surface geochemistry to search for mineralisation below the cover. With respect to geochemistry, it was noted in the field that there is a well developed zone of carbonate concentration (calcrete) in the near surface soil profile in both residual and transported soils in some areas. Sampling of that medium has been particularly effective in Au exploration in the Goldfields of Western Australia and the Gawler Craton of South Australia. Drummond considers that trialling this method would be well warranted.

9.5 Overview of Potential

In Drummond's opinion there is only a small chance of there being a *large* Au or base metal deposit *exposed at surface* in the upland areas of the Province. Any new discoveries will most likely be hosted by the recessive units, such as the Frew River Formation, and be concealed under soil or alluvial cover.

The fortuitously obtained BHP Gold geochemical data set has highlighted several areas for follow-up some of which, e.g. around Curtis Pound and in the Supplejack area (Section 11) are associated with the recessive units. The task for Arafura is to find ore bodies under this cover. While the BHP Gold data provides an initial platform, the recent release of the NTDMF Exploration Initiative airborne geophysical data will provide an excellent method to define potential target areas, and to help eliminate less prospective ones.

The evolution of geochemical exploration techniques has been rapid in the last decade and allows potential to seek under, or through, the transported cover. The challenge for Arafura is to tackle its large tenement holding and to quickly be able to generate targets so that it can focus its efforts and expenditure. The interpretation of the geophysics should facilitate that ground selection process.

10. THE KURINELLI PROJECT

10.1 Introduction

Kurinelli is an historical Au mining region, with the first activity undertaken in the 1890's. In subsequent times a number of small shafts were sunk and a small stamp mill was operational in the 1950's. The field has received scant attention by scientific exploration - possibly because its importance has only recently been emphasised by the significant Au production, from a large area, by prospectors using metal detectors. Discussion with them leads to the conclusion that about 150 kg have been recovered in the last few years. Without up to date aerial photography it is not possible to calculate the area which contains treated alluvial with any degree of accuracy, but, from driving around the leases it may total in excess of 12 sq km.

The Kurinelli project comprises numerous different types of titles, only some of which are granted (Figure 6). Arafura's initial exploration programmes may have to be tailored to the ground available when funds have been raised.

10.2 Overview

Drummond considers that Arafura is justifiably enthused about the potential of the Kurinelli Zone to host major and economic Au occurrences. The regionally important Kurinelli Fracture System, and the splays from it which bound the Kurinelli Zone, define an area of past extensional forces. Major and common pull-apart fracturing of the competent and brittle Rooneys Formation resulted, and this has allowed intrusion of the dolerites and gabbros. On-going hydrothermal activity resulted in influx of siliceous fluids containing Au, base metals and sulphides over a wide area - as attested to by current alluvial mining activities. The NTDMF and Arafura

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aeromagnetics indicate that the Kurinelli Zone may well be unique in the Davenport Province.

The current modest topographic variation, the extensive blanketing of target lithologies by transported alluvium and cover, and the past piecemeal tenement situation have resulted in largely superficial and ineffective exploration by previous tenement holders.

Although there is no recorded drilling at all in the Kurinelli Zone, there is sufficient evidence from the work of Arafura and the previous explorers that modern geochemical techniques, employing a mix of soil and calcrete geochemistry, backed where necessary by shallow drilling, should be able to assess the Zone properly and to delineate such anomalous zones as may exist as pointers to the discovery of economic deposits.

11. THE SUPPLEJACK PROJECT

11.1 Introduction

The Supplejack Project consists of an Exploration Licences EL22783 and EL9709, totalling approximately 1969 sq km, covering the south-eastern portion of the Davenport Province. Although known mineralisation occurrences are small and uncommon, Arafura considers the area to be fundamentally prospective for several styles of mineralisation viz :

- Kurinelli-type Au
- Hatches Creek-type tungsten
- diamonds in primary intrusions.

Drummond considers that the following additional targets are considered valid:

- sediment-hosted base metals such as McArthur River or Century
- volcano-sedimentary massive sulphides, base and precious metals
- volcanic centre-associated epithermal Au
- W, Ba and Bi mineralisation, of as yet indeterminate affinity.

The main target lithologies are recessive, that is they tend to be responsible for valleys and to be covered by young alluvials. The most common outcrops, and the ridge forming units, are sandstone sequences - they can be assumed to be relatively non-prospective on the basis of the accumulation of past data. The challenge for Arafura will be to explore under the alluvium. The recently acquired NTDME airborne magnetic data will be a large assistance in this regard. The transported soils have a calcrete or calcareous upper part and it is considered that Arafura should trial this medium as a guide to bedrock mineralisation - as has been successfully undertaken in other arid parts of Australia.

The application area has a light mining history. According to the BMR (Blake & Horsfall 1987);

"A few small abandoned mines and prospects of unknown production are located in Elkedra region. At the Juggler tungsten mine in the south, wolframite occurs in a narrow quartz-tourmaline vein, bordered by greisen, within the Elkedra Granite.

At a small prospect pit nearby, secondary Cu minerals impregnate sheared schistose sedimentary rocks of the Rooneys Formation. Detrital scheelite is present in stream sediments in the vicinity of the Elkedra Granite" ...and..."Turquoise has been mined at the Tosca mine. It occurs in weathered Cambrian sediments close to the unconformity with underlying Proterozoic rocks."

Possibly because of its lack of outcropping mineralisation, the area has received a comparatively low degree of exploration attention.

11.2 Discussion

BHP Gold's wide ranging stream sediment sampling programme defined the Supplejack area as having the most areally important and elementally diverse geochemical anomalous system in the whole Davenport Province. While previous explorers had decided that the base metal Ba-Ag-Bi anomaly at Cobalt Bloom was due to metal scavenging by manganese in the superimposed Cambrian, Tertiary and present weathering cycles, and possibly to basal Cambrian metalliferous sedimentation, BHP Gold's results indicate potential for a different picture (Figure 7).

The metal association is not a common one, even though Tennant Creek produces Au, Cu and Bi ores. When taken in conjunction with the regionally significant Supplejack Fault system, with the basic and felsic volcanic and intrusive activity, younger granite intrusion and with tungsten mineralisation both in Arafura's tenement and at Hatches Creek, analogies can be drawn to the Eastern Alpine metal deposits of Europe.

A second valid target style would be the W-Mo-Bi-Sn and base metal deposits of the Mt Pleasant area in the Northern Appalachian Mountains of New Brunswick, Canada. Here the deposits are hosted by intensely fractured and altered rhyolite sub-volcanic complexes of early Carboniferous age. A third is the Pilgrims Rest-Sabie style in the Eastern Transvaal. There the quartz-pyrite reefs are sediment hosted, and mineralising fluid sources is believed to be distal: the mineral association is Au-Cu-Ag-Bi-pyrite-As.

In any event, the anomalous systems appear to be both strata and structurally controlled and, as they are areally large, a significant exploration effort is warranted. BLEG Au anomalies attained by an earlier explorer

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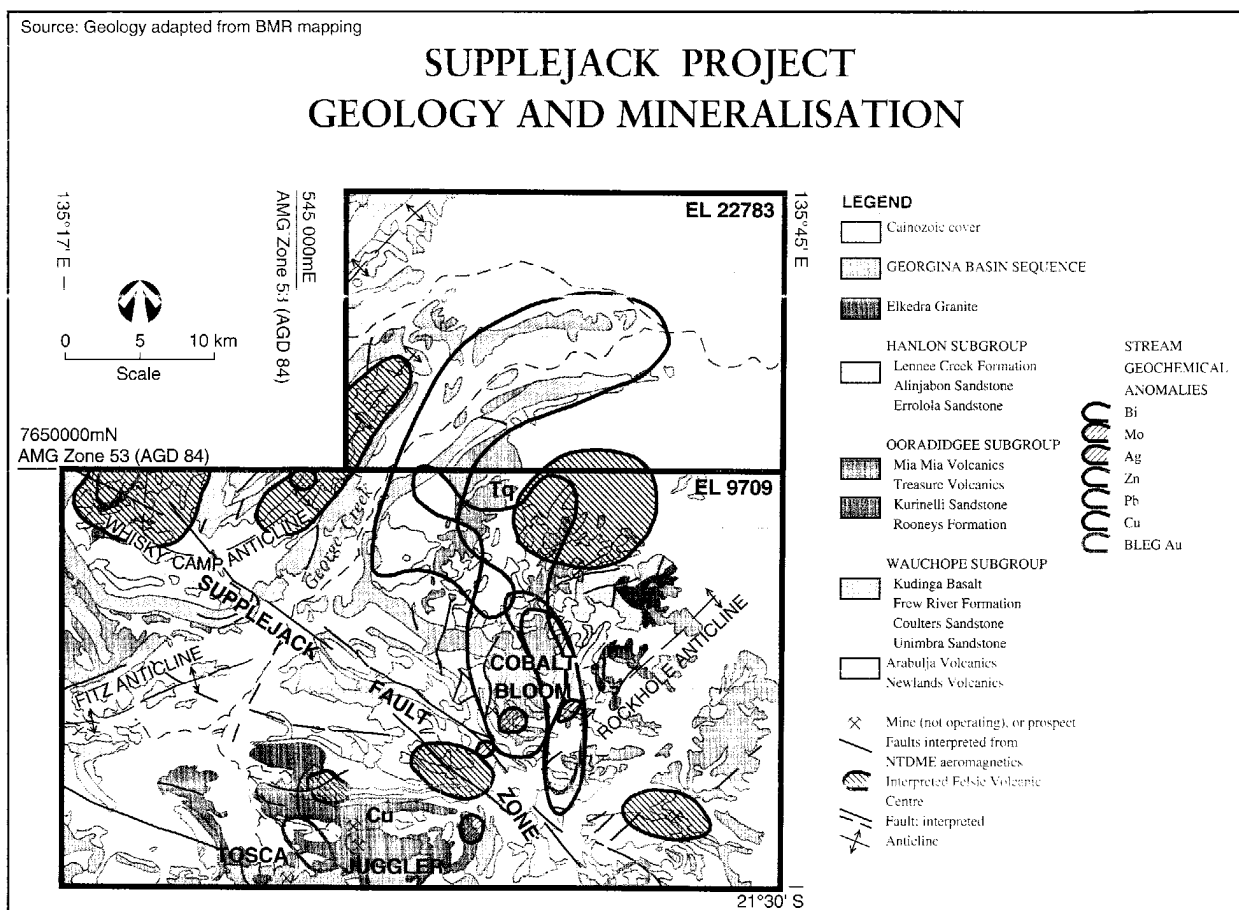


Figure 7

imply both the utility of that exploration method here, and also that the epithermal Au model is a realistic one to pursue. The recessive units are viewed as both prospective and under-explored. The juxtaposition of major fractures with associated alteration, volcanic centres and/or reactive sedimentary units will provide targets. Kurinelli-style mineralisation will also be an excellent target once it is better understood by Arafura. The exploration challenge is to seek evidence of mineralisation below the widespread Cambrian and younger alluvial cover.

The discovery of diamond targets interpreted from the recently released NTDME detailed aeromagnetic data in the Elkedra area is encouraging. Arafura may well be able to generate similar results when it assesses the data over its tenements.

THE EASTERN ARUNTA PROJECT

12. GEOLOGICAL & MINERALISATION OVERVIEW OF THE EASTERN ARUNTA PROVINCE

The eastern part of the Arunta Province is well mineralised. There are numerous minor shows over a wide variety of commodities including base metals, barite, micas, fluorite, apatite, W, U, REE and gemstones. In the

eastern Arunta Province, and not necessarily proximal to Arafura's tenements and shown on the maps in this Report, major mining operations have been mounted over the last 20 years or so at Molyhil (W, molybdenite, magnetite and chalcopyrite) and Jervois (base metals and Ag). Au at White Range was mined from veins in the Heavitree Quartzite, the basal unit of the Proterozoic sediments immediately overlying the Arunta metamorphic suite. While none have lived up to initial expectations they collectively attest to the potential of this part of the Province to host company-making discoveries. At the Mud Tank Carbonatite, vermiculite is being mined commercially.

Arafura has targeted two areas. It will seek REE in two tenements containing prospective Harts Range units in its Hammer Hill and Quartz Hill Projects; and base and previous metals and REE in its Jervois Project. (Figure 16 CoProj) Drummond visited all but Quartz Hill.

13. THE HAMMER HILL AND QUARTZ HILL PROJECTS

13.1 Introduction

The Harts Range, which lies to the west of Hammer Hill, is considered highly prospective for REE with an immediate target at the Holstein's Prospect. They are held under two Exploration Licences, numbered EL 9725 and

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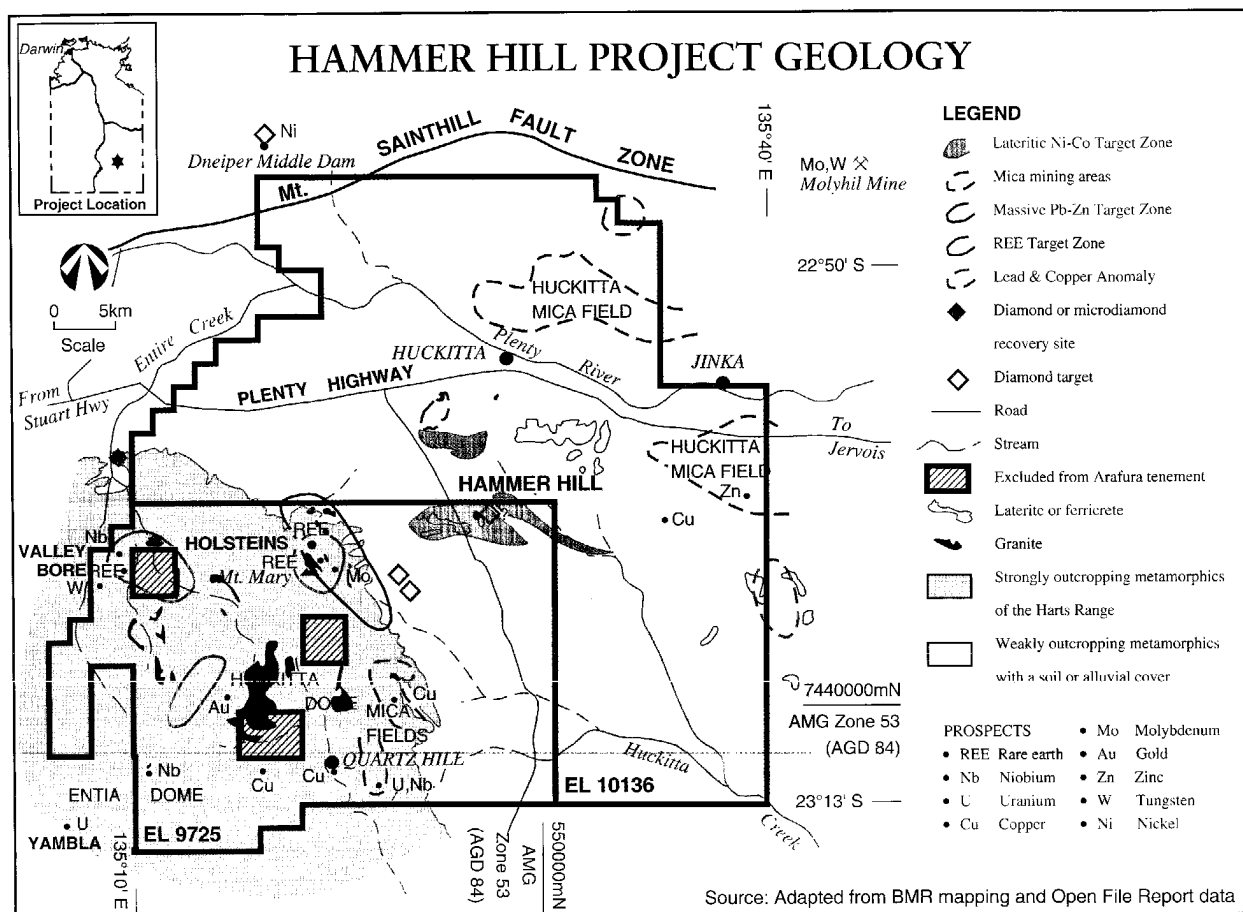


Figure 8

EL10136, comprising about 2250 sq km.

The south-western sector of the tenements covers part of the rugged Harts Ranges.

In the bulk of Arafura's tenure, relief is subdued and the Harts Range Group outcrops only weakly, with the sparse and scattered outcrops separated by a generally thin concealing cover of Cainozoic sedimentary rocks. The Cainozoic geology comprises laterite, silcrete or deeply weathered profiles superimposed on the older rocks (Figure 8).

13.2 Quartz Hill Rare Earths Overview

As Arafura has yet to conduct field investigations over the known REE target areas, opinions in this Report have been drawn entirely from the review of past exploration. There is clear evidence that several areas are strongly REE mineralised with, thus far, the Holstein's Prospect apparently being the most encouraging: a vigorous exploration programme seems well warranted (Figure 8).

13.3 Diamonds

Review of the Open File reports indicates a potential for diamond discoveries in lamproitic or kimberlitic intrusions.

14. THE JERVOIS PROJECT

14.1 Introduction

Arafura has two granted Exploration Licences (EL10214 and EL10215) covering strongly mineralised terrain in the eastern Arunta Block (Figure 9), and totalling 2086 sq km.

There is a mix of upland, with numerous old, but small, base metal and tungsten shows; of the area that surrounds, but does not include, the major mineralised base metal system at the old Jervois Mine; and of an extensive area of low relief target units which are either weathered or under cover. There has been a strong historic exploration effort for base metals over the Arunta Block units, and the task for Arafura is to define new targets from the pre-existing data base. The younger basal Georgina Basin sediments have only been lightly explored. There seems to have been little past exploration for carbonatites, kimberlites or rare earths.

The Jervois Project area consists of two tenements and their separation is somewhat a reflection of the different degree of outcrop and hence level of geological knowledge of them. In turn this will lead to the necessity to use different exploration approaches.

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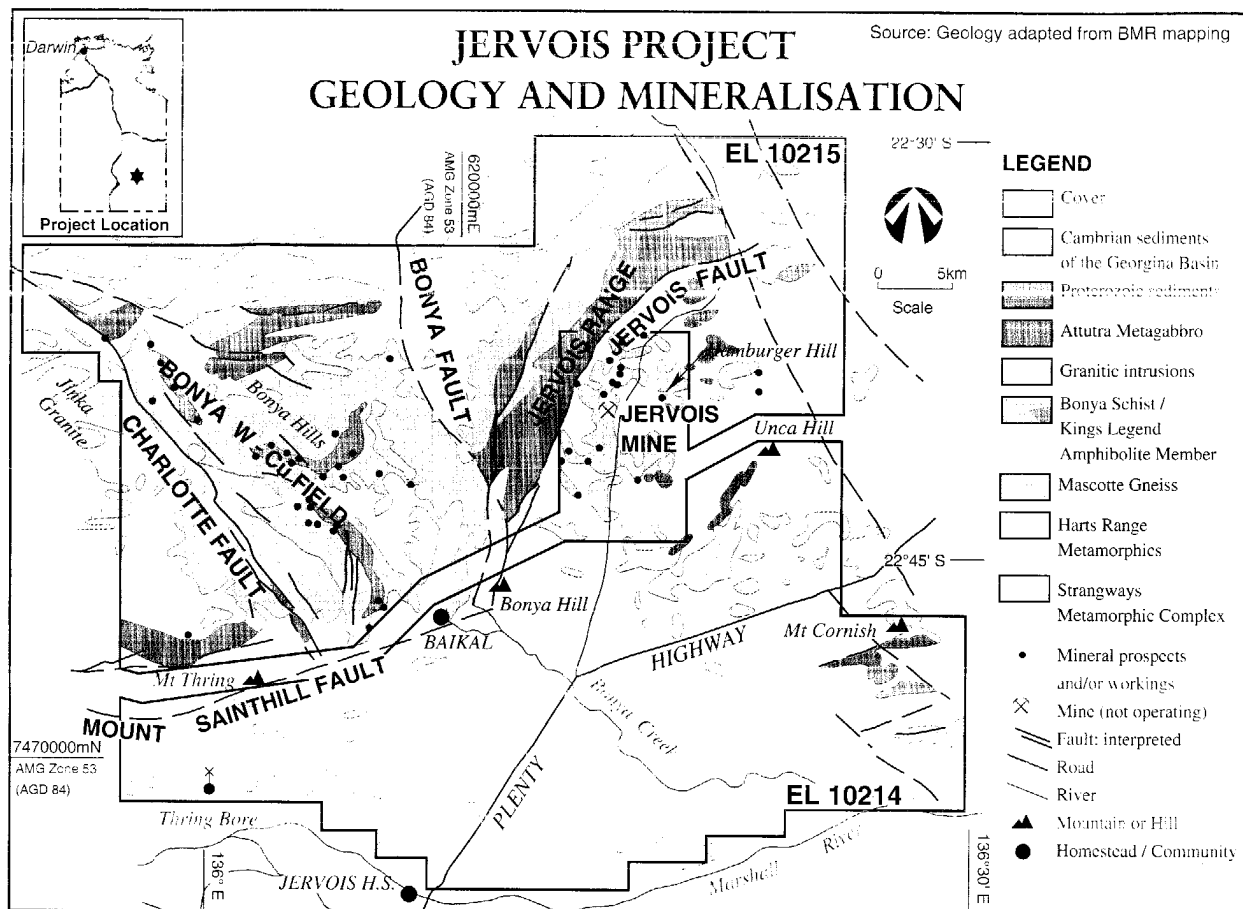


Figure 9

The northern tenement, EL10215, largely enjoys the good outcrop provided by the Jervois Range and the Bonyia Hills. Only in its furthest eastern sector - east of the Jervois Mine - and in the north central sector, where it is underlain by Georgina Basin sediments, is there extensive blanketing younger cover.

The northern part of the tenement, as well as a wedge in the Jervois Range to the west of the Jervois Mine, hosts well exposed Georgina Basin stratigraphy. The most basal Proterozoic units do not outcrop in EL10215, but the upper ones outcrop strongly in the Jervois Ranges, and consist of shales, arenites, siltstones and lesser carbonates. The Cambrian sequences are well exposed and Arafura considers them targets for carbonate-hosted Pb-Zn-Ag deposits.

Major fault systems - the Mount Sainthill, Bonyia, Charlotte and Jervois - define tectonic block boundaries and, with associated splay systems, may have provided access to mineralising fluids (Figure 9).

EL10214 largely covers the flat valley of the Marshall River and the Plenty River systems; outcrop is poor because of extensive alluvial cover. The bulk of the tenement is underlain by schists and gneisses of the Division One Strangways Metamorphic Complex and Division

Two Harts Range Group. Its north-eastern sector is largely underlain by the Jervois Granite. Near Mt Cornish, Adelaidean sediments - the earliest units of the Georgina Basin - occur, preserved by faulting. There are no known mineral deposits in this tenement.

The objective for Arafura is to locate further occurrences of the base metal mineralisation mined historically at the nearby Jervois mine (Figure 9). The tenor of the historic production and recent drill information published by the owners of the tenements over Jervois mine indicate that this style of mineralisation is a worthy target for Arafura.

14.2 Target Models and Overview

Arafura aims to search for several styles of mineralisation, as follows :

- (a) Jervois or Broken Hill style, lead-zinc-Cu mineralisation in the metamorphosed sediments, volcanics and volcanoclastics of the Arunta Block.
- (b) Nolans Bore style apatite-hosted REE deposits.
- (c) Navan style carbonate hosted lead-zinc mineralisation in the basal units of the Georgina basin sedimentary succession.

The data review undertaken by Drummond suggests some additional potential for kimberlitic intrusions, and vein or pegmatite hosted REE.

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All of the above are viewed as being justifiable in the light of the data at hand. Access to new technology, such as has recently been reported to have been at the Jervois Mine area may lead to strong exploration advances in particular where target lithologies/stratigraphics have been indicated but where outcrop is poor. The fact that the operators at Jervois reported that blind geophysical targets were generated and have been drill tested and found to contain mineralisation, is viewed as highly encouraging.

THE CARRARA RANGE PROJECT

15. THE CARRARA PROJECT

15.1 Introduction

The Project area is defined by Exploration Licence EL9824 and is approximately 480 sq km in extent. Arafura applied for the tenement primarily to seek McArthur River/Mt Isa/Century-style SEDEX Zn-Pb mineralisation in the Carrara Range as it considered that previous exploration efforts may not have been exhaustive.

The McNamara Group underlies most of the tenement, although in the north-eastern sector it is extensively concealed by strong development of a Tertiary ferricrete formed during a lateritic weathering cycle and there may also be Cretaceous blanketing sediments of the Mullaman beds between the ferricrete and the McNamara Group. Recent alluvial sediments also obscure target units in the central west and north-western part of the tenement. Lawn Hill Formation was interpreted to underlie the alluvials in the latter area by a previous explorer.

The Proterozoic section within the Carrara Range has been

dismembered by a series of EW and NE oriented faults. The Little Range Fault generally provides the southern boundary of the Inlier. The other faults, to its north, generally are parallel to it, and seem to be a splay system associated with it.

The McNamara Group contains the sediment-hosted sulphide deposits at Lady Loretta and Century, and the Lady Annie and Mammoth Cu deposits. It is an equivalent of the Mount Isa Group which hosts the Mount Isa and Hilton Zn-Pb bodies and the Mount Isa Cu deposit. The world-class Century Zn deposit is hosted by the Lawn Hill Formation and lies some 80 km east of the eastern boundary of the Carrara Project (Figure 17 CoProj).

15.2 Overview

Because of the Project's proximity to the Century discovery and the recent interpreted identification therein of the latter's host stratigraphic unit, the Lawn Hill Formation, an early emphasis on investigation of that unit is warranted. It is considered that the past work on the known areas of it has not been exhaustive and that there is still good potential for a medium-sized discovery. Cainozoic cover and/or the effects of lateritic weathering cover the north-east of the tenement and this area may host Lawn Hill Formation. Apart from the Lawn Hill Formation, past exploration has indicated significant anomalism in both the Murphy Metamorphics and the mid-Proterozoic sediments. The former could conceivably host volcanic-related mineralisation.

Arafura has recently attracted a joint venture partner which will fund and carry out the exploration.

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GLOSSARY OF TECHNICAL TERMS AND ABBREVIATIONS

aeromagnetic survey	_____	A <i>magnetic</i> survey made from the air.
Al	_____	Aluminium.
allanite	_____	A REE-alumino-silicate mineral.
alluvium	_____	A sediment deposited by water.
alteration	_____	The change in the mineral composition of a rock, commonly due to hydrothermal activity.
amphibolite	_____	A metamorphic rock consisting of amphibole and plagioclase.
anomalous	_____	Deviating from the normal: usually refers to significant or unusual data.
apatite	_____	A Ca-phosphate-F mineral: at Nolans Bore it also contains REE.
Archaean	_____	The oldest rocks of the Earth's crust - older than about 2,400 million years.
arenite	_____	Refers to medium grained sedimentary rocks composed of sand grains.
argillic	_____	Composed of clay minerals and/or clay size particles.
As	_____	Arsenic.
assay	_____	Accurate laboratory determination of the concentration of a given element in a sample.
Au	_____	Gold.
Ba	_____	Barium.
base metal	_____	A metal inferior in value to precious metals e.g. copper, lead, zinc.
basement	_____	A general term for rocks considered older than and/or below the target rocks.
bastnaesite	_____	REE-enriched fluoro-carbonate mineral.
Be	_____	Beryllium.
Bi	_____	Bismuth.
BIF	_____	Banded iron formation.
biotite	_____	A dark brown mica mineral formed in metamorphic and igneous rocks.
BLEG	_____	Bulk leach extractable gold analysis; an analytical method for accurately determining low levels of gold.
brecciated	_____	Condition applied to an intensely fractured body of rock.
Ca	_____	Calcium.
Cainozoic	_____	The division of geological time extending from 65 million years ago to the present.
calcite	_____	A calcium carbonate mineral.
calcrete	_____	A hard pan layer in which surface debris is cemented by calcium carbonate.
calc-silicates	_____	A group of minerals formed from the metamorphism of impure carbonate sediments.
Cambrian	_____	A geological age spanning approximately 530 - 470 Ma.
carbonaceous	_____	Containing fossil organic material in the form of coal or graphite.
carbonatite	_____	A magmatic rock consisting essentially of carbonate minerals.
Cd	_____	Cadmium.
Ce	_____	Cerium.
chalcedony	_____	A very fine grained form of silica (silicon oxide).
chalcopyrite	_____	An ore of copper sulphide.

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cheralite	REE-enriched calcium phosphate/silicate mineral.
chlorite	A green coloured hydrated Al-Fe-Mg silicate mineral common in metamorphic rocks.
chromite	A Mg/Fe chromate (chrome oxide) mineral.
concentrate	The concentrated mineral product resulting from preliminary processing.
cordierite	A Mg-Al-silicate metamorphic mineral.
costean	A trench through the surface soil or debris to expose the bedrock or undisturbed weathered rock for mapping and sampling.
Cr	Chromium.
crushing	The processing of breaking rock to given sizes to prepare for extraction of gold and other minerals.
Cu	Copper.
Devonian	A geological age spanning approximately 395-445 Ma.
Dy	Dysprosium.
dyke	A tabular body of igneous rock, cross cutting the older host rock at a high angle.
ELa	An exploration licence which is under application but yet to be granted by the NTDME.
electromagnetic survey	See EM survey.
EM survey	Electromagnetic survey, a method of measuring the alternating magnetic fields associated with electrical currents artificially or naturally maintained in the subsurface.
epidote	One of a family of minerals usually green in colour, and formed by low temperature metamorphism.
Er	Erbium.
Eu	Europium.
faulting	Fractures in rocks on which there has been movement on one of the sides relative to the other and parallel to the fracture.
Fe	Iron.
feasibility studies	A study undertaken to determine the economic viability of a mineral deposit.
feldspar	Probably the most important group of rock forming silicate minerals, with major divisions into Ca, Na and K families.
felsic	A group name for light coloured silicate minerals that are poor in iron and magnesium and for rocks in which these minerals are abundant.
ferricrete	An iron-rich surface or near surface cement formed during weathering of Fe-containing rocks.
ferruginous	Containing iron.
fluorapatite	A mineral which is a more fluorine-rich variant of apatite.
fluorite	Calcium fluoride mineral.
folding	Bending of strata or of any planar structure.
foliated	Referring to a layering in rocks.
garnet	A brown-red silicate mineral commonly found in skarn alteration zones in limestone/dolomitic rocks, or in medium grade metamorphic rocks.
Gd	Gadolinium.
geochemical	The major and minor elemental composition of rocks.

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geochemistry	The study of the variation of chemical elements in rocks or soils: adj. geochemical.
geophysics	The study of the earth by quantitative physical methods.
gneiss	A coarse grained metamorphic rock characterised by mineral banding of the light and dark coloured constituent minerals.
gossan	A ferruginous deposit remaining after the oxidation of the original sulphide minerals in a vein or ore zone.
grab samples	Samples collected for assay on a semi-random basis.
granite	A coarse grained igneous rock consisting essentially of quartz and more alkali feldspar than plagioclase.
gravity surveys	Recording the specific gravities of rock masses in order to determine their distribution.
greenschist	Low to moderate temperature metamorphic mineral assemblage which typically includes green minerals, eg chlorite.
greenstone	A field term for a slightly altered mafic igneous rock.
grinding circuit	Area of processing plant where crushed rock is pulverised finely to facilitate recovery of gold and other minerals.
g/t	Grams per tonne.
haematite/hematite	A mineral composed of ferric iron oxide.
Ho	Holmium.
hornblende	A rock forming amphibole group mineral which forms part of the mafic component of igneous rocks.
hydrometallurgical plant	Processing plant that extracts minerals by dissolution.
hydrothermal	Relating to hot fluids, which can alter or metamorphose minerals and rocks, and can introduce mineralisation.
induced polarisation	Electrical geophysical field technique, commonly used to detect disseminated mineralisation or alteration within a rock mass.
inferred resources	In situ mineral resource calculated with a low confidence level to which economic parameters have not been applied.
intrusive	A body of igneous rock that was intruded while molten into the Earth's crust.
iron stone/iron formation	Any rock containing a major proportion of iron: often a banded Fe-O-silica rock.
JORC	Joint Ore Reserves Committee.
K	Potassium.
La	Lanthanum.
lag	A residual accumulation of coarse hard rock fragments on the surface after the removal of finer material by wind or water.
Lanthanide	Group of rare earth elements.
laterite	A strongly leached iron and aluminium rich rock, formed at the surface by weathering in tropical conditions.
limestone	A sedimentary rock consisting chiefly of calcium carbonate.
lineament	A naturally occurring major linear feature in the Earth's crust.
lithology	Relating to rocks.
Lu	Lutetium.
m	Metre.

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M	_____	Million.
Ma	_____	Million years ago.
magnetic survey	_____	Geophysical survey which records the magnetic intensity of the Earth's field and any local distortions caused by immediately underlying rocks.
magnetite	_____	Iron oxide mineral which has magnetic properties.
magnetometer	_____	An instrument for reading the Earth's magnetic field.
malachite	_____	A copper carbonate mineral formed by oxidation of primary copper sulphide mineralisation.
marble	_____	Metamorphosed limestone (calcium carbonate).
meta	_____	A prefix meaning that the rock type has undergone metamorphism.
metallurgy	_____	The science of extracting metals or other wanted products from ore.
metamorphosis	_____	Alteration by physical and chemical process involving heat, pressure and derived fluids.
mica	_____	A family of minerals characterised by their flaky and shiny appearance, and their ability to be able to be split along those shiny cleavage surfaces.
mineral dressing circuit	_____	Area of processing plant that recovers minerals by physical methods such as crushing, grinding and flotation.
ML	_____	Mining Lease, a title that allows mining.
Mn	_____	Manganese.
Mo	_____	Molybdenum.
Mobile Metal Ion/MMI	_____	A proprietary geochemical survey system claimed to be efficacious in the discovery of deep mineralisation.
monazite	_____	A rare earth phosphate mineral.
muscovite	_____	A generally colourless mica mineral.
mylonite	_____	A hard compact rock with streaky or banded structure produced by extreme granulation of the original rock mass in a fault or thrust zone.
Nb	_____	Niobium.
Nd	_____	Neodymium.
Ni	_____	Nickel.
NTDME	_____	The Northern Territory Department of Mines & Energy.
NTGS	_____	The Northern Territory Geological Survey.
orogenic	_____	Relating to a mountain building phase in the Earth's history at a given place.
outcrop	_____	The surface expression of a rock layer.
P	_____	Phosphorus.
palaeo	_____	A prefix relating to a past, ancient or fossil feature.
Palaeozoic	_____	A time period from 570 to 248 million years ago.
Pb	_____	Lead.
pegmatite	_____	A coarse grained igneous rock with interlocking crystals intruded into fractures in older minerals.
pilot plant	_____	A small processing plant designed to treat small parcels of ore to determine metallurgical characteristics.
plagioclase	_____	A Na/Ca feldspar.
ppb	_____	Parts per billion.
ppm	_____	Parts per million (same as grams per tonne, or g/t).

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Pr	Praseodymium.
pre-feasibility	An intermediate study to determine the likely economic viability of a project.
Proterozoic	Geological period approximately 2400-570 Ma ago. The Proterozoic is further subdivided into Palaeo (2400-1800), Meso (1800-1400) and Neo (1400-570).
pyrite	A mineral composed of iron and sulphur, often associated with more valuable minerals.
pyrope	A dark garnet, often found in kimberlites, and so is used as an indicator mineral to find kimberlites and, hopefully, diamonds contained therein.
quartz veins	Tabular bodies of crystalline silica – quartz.
quartzite	A type of arenaceous rock, usually in which quartz grains have been recrystallised to produce an interlocked texture.
radiometrics	Geophysical survey which measures the natural radioactivity of rocks.
recessive	Refers to lithologies which weather and erode easily so they outcrop rarely and are usually covered by alluvial material or deep soils.
REE	The Rare Earth Elements.
reef	<i>See vein.</i>
REO	The Rare Earth Oxides.
replacement	Where the original composition of the rock or ore body has been modified and replaced by circulating fluids containing different mineral components.
reverse circulation drilling/RC	Drilling method employing a repeated hammering action on a drill bit which yields sample material which is delivered to the surface inside the rod string by compressed air.
Rh	Rhodium.
rock-chip	The collection of representative samples of rock fragments within a limited area.
rotary airblast drilling/RAB	Rotary drilling technique in which sample is returned to surface outside the rod string by compressed air.
sandstone	A sedimentary rock composed of cemented or compacted detrital sediment, principally quartz grains.
Sb	Antimony.
Sc	Scandium.
scheelite	Calcium tungstate - one of the two principal tungsten minerals.
schist	A crystalline fissile metamorphic rock.
scintillometer	A radiation detector measuring a range of energies, for example a Geiger Counter.
sediments	Solid material, both mineral and organic, that is in suspension, is being transported or has been moved from its site of origin by air, water or ice, and has come to rest on the Earth's surface either above or below sea level.
shale	A fine grained laminated sedimentary rock formed from clay, mud and silt, which often can split along the sedimentary planes.
shear	A zone in which rocks have been deformed primarily by ductile means in a response to applied stresses.
silicat-ate)	Silicon oxide minerals such as quartz, opal, chalcedony, (mineral containing silicon oxide).

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skarn	_____	An alteration halo of minerals formed in carbonate rocks by contact metamorphic replacement of the original rock mass.
Sm	_____	Samarium.
Sn	_____	Tin.
Sr	_____	Strontium.
strata	_____	Beds or layers of sediment that when lithified become a sedimentary rock.
strata bound	_____	Lying within a particular rock stratum.
stratiform	_____	Bedded or layered.
stratigraphy	_____	Composition, sequence and correlation of stratified rocks in the Earth's crust.
stream sediment sampling	_____	A geochemical sampling technique based on the assumption that if traces of an element, such as gold, occur in a stream sediment, they have been derived from the area or catchment that the stream drains.
supergene	_____	Secondary ores or minerals formed by downward enrichment processes due to concentration of the minerals by dissolution and precipitation associated with ground water.
supergene enrichment	_____	Near surface mineral enrichment, commonly due to descending solutions that leach metal.
super-magnets	_____	High efficiency magnet usually containing neodymium.
surface enrichment	_____	Upgrading of the relative quantity of a mineral or ore at the Earth's surface, due to weathering processes.
syncline	_____	A fold in rock strata that is concave upward with a core of younger rocks.
synform	_____	A folded sequence of rocks with a synclinal shape but where the relative ages of the folded units in the sequence are not known.
t	_____	Metric tonnes.
tantalite	_____	A tantalum-niobium mineral.
Tb	_____	Terbium.
Th	_____	Thorium.
Tm	_____	Thulium.
turquoise	_____	A Cu-phosphate-Al mineral used as a precious stone.
U	_____	Uranium.
ultramafic	_____	Igneous rock composed chiefly of mafic minerals and with a relatively low silica content.
unconformity	_____	Lack of parallelism between rock strata in sequential contact, caused by a time break in sedimentation.
vein	_____	Transgressive mineralised body usually of quartz.
vermiculite	_____	A mica with the property of swelling and crinkling when it is heated.
volcaniclastic	_____	A sedimentary rock whose constituents are derived from breakdown of volcanic primary rocks.
W	_____	Tungsten.
weathering	_____	The effects on rock and ore minerals of prolonged exposure to atmospheric elements such as water and oxygen.
XRD	_____	An assay technique involving an X ray diffractometer instrument.
Y	_____	Yttrium.
zircon	_____	A zircon silicate mineral.
Zn	_____	Zinc.

Section 7 ■ Rare Earths Market Overview

IMCOA

ABN 42 084 433 992

Industrial Minerals Company of Australia Pty Ltd

Mr I.G. Muir
Managing Director
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P. O. Box 394
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21 July 2003

Dear Mr Muir

Rare Earths Market Overview

This overview has been prepared by the Industrial Minerals Company of Australia Pty Ltd (IMCOA) for inclusion in a Prospectus to be dated on or about 4th August, 2003 relating to the offer by Arafura Resources NL (Arafura) of up to 17.5 million fully paid ordinary shares of 20 cents each, payable in full on application.

The overview has been written with reference to information from IMCOA'S internal files and from published data. The overview relates to the market for rare earths in general. Every effort has been made to ensure that the information presented and the conclusions reached are realistic and not misleading. Accordingly while the report may identify market niches in which the Nolans Bore Project may successfully negotiate supply contracts, there are no guarantees (implied or otherwise) that they could be secured.

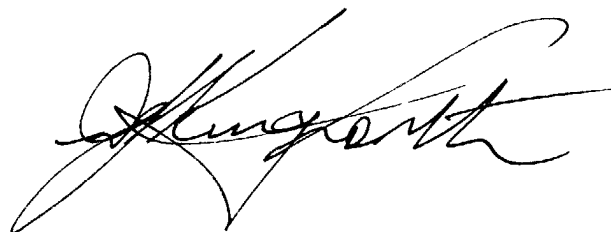
Every effort has been made to ensure that the overview outlines a realistic assessment of the world rare earth markets. However, IMCOA makes no warranty as to the accuracy of the information contained in the overview and will not accept any responsibility or liability for any loss incurred by any person or organisation relying on the information in the overview.

No director or employee of IMCOA is, intends to be a director, officer or other direct employee of Arafura. No director or employee of IMCOA has, or has had, any share holding, or the right (whether enforceable or not) to subscribe for securities, or the right (whether legally enforceable or not) to nominate persons to subscribe for securities in Arafura. Fees are being charged at a commercial rate for the preparation of this overview, the payment of which is not contingent upon the conclusions of the overview nor on the success of the proposed listing of Arafura on the Australian Stock Exchange Ltd.

IMCOA has given and has not at the time of lodgement of this Prospectus withdrawn its consent to the issue of the Prospectus with this overview included in the form and context in which it appears.

Yours sincerely

Industrial Minerals Company of Australia Pty Ltd



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Section 7 ▲ Rare Earths Market Overview

1. INTRODUCTION

Greek alchemists defined earths as materials that could not be changed by the sources of heat available to them. This perception lasted for many centuries, so long in fact that until late in the 18th century the oxides of metals such as calcium, aluminium and magnesium were known as earths.

In 1794, while investigating a rare Swedish mineral, a Finnish chemist named Johan Gaddin, discovered a new 'earth' to which he gave the name 'Ytterbia', after Ytterby, the village where the mineral was found – subsequently shortened to Yttria. Later, in 1803, from the same rare mineral a new earth named Ceria was discovered and since Yttria and Ceria had been discovered in a rare mineral and closely resembled one another, they were referred to as 'rare earths'.

Today, the rare earth elements are a series of 17 chemically similar metals, consisting of 15 elements known as the lanthanides, plus yttrium and scandium. It is the rare earth metals oxides that are of particular interest to scientists and industrialists, due to their unique magnetic and spectroscopic properties.

Throughout the industry rare earths are normally expressed in terms of rare earth oxides (REO) and often classified into three groups: Light, Medium and Heavy. At other times the light and medium rare earths are referred to as the 'cerics' and the heavy rare earths as the 'yttrics'. The rare earths with their atomic weights and symbols are detailed in Table 1.

Rare earths are a critical minor constituent of many advanced materials that are essential inputs to the manufacture of items such as mobile telephones, computers, televisions and autocatalysts. Although rare earths have a relatively high unit value, the impact of this cost has little,

if any, impact on the selling price of the final item. Furthermore, as they are generally present in minute concentrations they are not recycled. It is for these reasons that rare earths are considered strategic materials. In Japan rare earths are often referred to as the 'seeds of high technology'.

Rare earth products are generally priced in terms of US\$ per kg REO, regardless of the chemical form in which they are sold.

2. WORLD RARE EARTH RESOURCES

Hard rock deposits of bastnaesite and placer deposits of monazite and xenotime host most of the world's economic concentrations of rare earth elements, and traditionally it has been these that have been exploited for rare earths. Due to the relative concentration of the rare earth oxides in these minerals, it is the light rare earths or cerics that predominate and account for the largest proportion of rare earth oxides produced.

World production of light rare earths is dominated by the processing of bastnaesite at Baotou in Inner Mongolia, where it is a by-product of iron ore mining. Monazite and xenotime are usually extracted as by-products of titanium minerals and tin production, often from placer deposits. Up until 1994 the mineral sand miners of Western Australia exported by-product monazite. The relative rare earth contents of key world commercial resources are shown in Table 2.

The less abundant, but more valuable, yttrium and heavy rare earths, are mainly sourced from ionic absorption clays in southern China.

Current world reserves of rare earths, as assessed by the US Geological Survey, are estimated to be about 100 million tonnes REO contained which, based on their continued

TABLE 1 – RARE EARTH ELEMENTS AND THEIR ABUNDANCE

ELEMENT	TYPE	ATOMIC NO.	SYMBOL	ATOMIC MASS
Lanthanum	Light	57	La	138.92
Cerium		58	Ce	140.13
Praseodymium		59	Pr	140.92
Neodymium		60	Nd	144.27
Promethium*	Medium	61	Pm	145.00
Samarium		62	Sm	150.43
Europium		63	Eu	152.00
Gadolinium		64	Gd	156.90
Terbium	Heavy	65	Tb	159.20
Dysprosium		66	Dy	162.46
Holmium		67	Ho	163.50
Erbium		68	Er	167.20
Thulium		69	Tm	169.40
Ytterbium		70	Yb	173.04
Lutetium		71	Lu	174.99
Yttrium		39	Y	88.92
Scandium		21	Sc	45.10

Notes: ppm = parts per million, N/A = not applicable

*Promethium does not occur naturally in a stable isotope, although it can be artificially manufactured

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TABLE 2 – RARE EARTHS CONTENT OF MAJOR SOURCE MINERALS

Rare Earth	Australia Nolans Bore NT	Australia Mt Weld, WA	FSU* Kola Peninsula	USA Mountain Pass, CA	China Baiyunobo, Inner Mongolia Bastnaesite	China Xunwu, Jiangxi Province RE in Clay
		Monazite	Apatite	Bastnaesite		
Lanthanum	18.51	26.00	25.78	33.20	23.00	43.37
Cerium	47.77	51.00	46.22	49.10	50.00	2.38
Praseodymium	6.06	4.00	4.01	4.34	6.20	9.02
Neodymium	21.48	15.00	14.38	12.00	18.50	31.65
Samarium	2.45	1.80	1.64	0.79	0.80	3.90
Europium	0.45	0.40	0.51	0.12	0.20	0.50
Gadolinium	1.15	1.00	0.10	0.17	0.70	3.00
Terbium	0.11	0.10	1.03	0.02	0.10	trace
Dysprosium	0.34	0.20	0.10	0.03	0.10	trace
Holmium	0.05	0.10	0.15	0.01	trace	trace
Erbium	0.11	0.20	trace	0.00	trace	trace
Thulium	0.01	trace	trace	0.00	trace	trace
Ytterbium	0.05	0.10	trace	0.00	trace	0.26
Lutetium	0.01	trace	trace	0.00	trace	0.10
Yttrium	1.45	trace	6.08	0.09	0.50	8.00
% Oxide	100.00	100.00	100.00	100.00	100.00	100.00

*FSU: Former Soviet Union

TABLE 3 – WORLD MINE PRODUCTION, RESERVES AND RESERVE BASE

Country	Mine Production (tonnes REO)		Reserves (tonnes REO)	Reserve Base (tonnes REO)
	1999	2000		
United States	5,000	5,000	13,000,000	14,000,000
Australia	-	-	5,200,000	5,800,000
Brazil	1,400	1,400	280,000	310,000
Canada	-	-	940,000	1,000,000
China	80,500	75,500	43,000,000	48,000,000
India	2,700	2,700	1,100,000	1,300,000
Malaysia	350	250	30,000	35,000
South Africa	-	-	390,000	400,000
Sri Lanka	120	120	12,000	13,000
Former Soviet Union	2,000	2,000	19,000,000	21,000,000
Other Countries	-	-	21,000,000	21,000,000
World Total (rounded)	87,500	86,500	100,000,000	110,000,000

Source: US Geological Survey, Mineral Commodity Summaries, January 2001 and China Rare Earth Information Centre

availability and typical metallurgical recoveries, should be sufficient for the next 300 years. The largest proportion of these reserves lie in China (43 million tonnes) and are equivalent to around 40% of the world's reserves, while the USA accounts for another 13.6 million, Australia 5.1 million and India 2.3 million tonnes. World Mine Production, Reserves and Reserve Base, as defined by the US Geological Survey are shown in Table 3.

It should be noted that the reserve figures in the table encompass a wide range of mineral qualities and do not necessarily comply with the Australian JORC Code for definition of resources and reserves. Furthermore, the prospectivity of a resource is determined by several factors including grade, cost of

processing, impurities and the relative concentration of the rare earth elements in greatest demand, which is not identified in the above table. The most common minerals that are processed to recover the rare earths are listed in Table 4.

Almost all the light rare earths produced today are extract-

TABLE 4 - COMPOSITION OF RARE EARTH MINERALS

Mineral	Formula	Major Occurrences	REO max (%)
Bastnaesite	LnFCO_3	China, USA	75
Monazite	$(\text{Ln,Y,Th})\text{PO}_4$	China, Australia, Brazil, India, Malaysia, Africa	65
Loparite	$(\text{Na,Ca,Ln,Y})(\text{Nb,Ta,Ti})_2\text{O}_6$	CIS	32
Xenotime	YPO_4	China, Australia, Malaysia, Africa	62
Apatite	$(\text{Ca,Ln})_2(\text{P,Si})\text{O}_4$	CIS, Australia	12
Ionic Clays(1)	Weathered Xenotime and Apatite	China	N/A

Note: Ln is the generic symbol for the lanthanides

(1) Ionic clays are also known as ionic adsorption clays

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ed from bastnaesite and monazite, while most of the heavy rare earths are extracted from xenotime and ionic adsorption clays. The processes used to separate the rare earths from these minerals have changed little in the past 20 years. The route chosen is based upon the economics of the processes available with particular reference to the local costs of sulphuric acid, hydrochloric acid and caustic soda, the primary reagents used to extract rare earths.

In the current situation, where supply exceeds demand, a project in which the rare earths are a by-product to the major commodity could have a significant advantage over a project solely dependent upon rare earths.

TABLE 5 – SOME INDIVIDUAL APPLICATIONS FOR RARE EARTHS

Element	Applications/Properties	Element	Applications/Properties
Lanthanum	- the oxide improves the alkali resistance of glass - the oxide is used in making special optical glasses - as an additive to produce nodular cast iron - lighter flints - used as a catalyst in petroleum refining - alloys/mischmetal, with particular application in lanthanum-nickel-hydride batteries, hydrogen absorption alloys and creep resistant magnesium alloys	Gadolinium	- used for making gadolinium yttrium garnets which have microwave applications - gadolinium compounds are used for making phosphors for colour TV tubes - superconductive properties - solutions of gadolinium compounds are used as intravenous contrasts to enhance images in patients undergoing MRI (magnetic resonance imaging)
Cerium	- the oxide is used as a glass polishing agent - the oxide is used in autocatalysts - the oxide is used in mechano-chemical polishing of computer chips - the oxide is a catalyst in "self-cleaning" ovens. In this application it is incorporated into oven walls to prevent the collection of cooking residues - the oxide is used in the manufacture of glass as a decolouriser - used in carbon-arc lighting with other rare earth elements, especially in the motion picture industry - the sulphide is used as a red pigment in plastics - a constituent of mischmetal	Terbium	- the oxide is an activator for green phosphors used in colour TV tubes - used with ZrO₂ as a crystal stabilizer of fuel cells which operate at elevated temperatures
Praseodymium	- salts used to colour glasses and enamels: produces an intense yellow colour - component of didymium used for colouring glass to make welder's goggles - used to improve corrosion resistance of neodymium-iron-boron magnets	Dysprosium	- in combination with vanadium and other earths, dysprosium is used for making laser materials - dysprosium-cadmium chalcogenides are sources of infrared radiation and are used for studying chemical reactions
Neodymium	- in magnets, as neodymium-iron-boron, in laptop computers, personal audio-visual equipment and voice coils - component of didymium used for colouring glass to make welder's goggles - salts are used as a colourant for enamels - used in lasers (to produce coherent light) - the oxide is used in autocatalysts to enhance the performance of cerium oxide - a constituent of mischmetal	Erbium	- metallurgical uses, added to vanadium, for example, erbium lowers hardness and improves workability - the oxide is used as a pink colourant in glasses and porcelain enamel glazes - photographic filter
Samarium	- SmCo₅ used as a permanent magnet material - carbon-arc lighting for motion picture industry - used to dope CaF₂ crystals for use in optical masers or lasers - the oxide is a catalyst for the dehydration and dehydrogenation of ethanol - headphones - a constituent of mischmetal	Thulium	natural thulium has possible use in ferrites (ceramic magnetic materials) used in microwave equipment
Europium	- the oxide is used as a phosphor activator and europium-activated yttrium vanadate is used as the red phosphor in colour TV tubes - europium isotopes are good neutron absorbers and are used in nuclear control applications	Ytterbium	- possible use in improving the grain refinement, strength and other mechanical properties of stainless steel - one isotope used as a radiation source as a substitute for a portable X-ray machine where electricity is unavailable - lasers
		Lutetium	- stable lutetium nuclides can be used as catalysts in cracking, alkylation, hydrogenation and polymerisation - alloys
		Yttrium	- used in yttrium stabilised zirconia - YVO₄ europium and Y₂O₃ europium phosphors give the red colour in colour television tubes - the oxide is used to produce yttrium-iron-garnets, which are very effective microwave filters - used in laser systems - used as a catalyst for ethene polymerisation - used in ceramic and glasses as the oxide has a high melting point and imparts shock resistance and low expansion characteristics to zirconia - increases the strengths of alloys of metals such as chromium, aluminium and magnesium

Source: Sheffield University Chemdex website

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3. END USES OF RARE EARTHS

The total number of applications for all the individual rare earths is exceptionally large and continues to increase due to the ongoing commitment to research and development by major rare earth companies. Many of the current and potential markets for individual rare earths, in various chemical forms, are identified in Table 5.

4. THE WORLD RARE EARTHS MARKET

4.1 Market Structure

China, with many producers, dominates the industry, while Rhodia Electronics and Catalysis (with operations in France and two joint ventures in China) is the major supplier of 'value-added' products. Other producers include Molycorp of USA, Mitsui Mining & Smelting of Japan, Indian Rare Earths, AMR Technologies of Canada (which manages/operates two joint ventures in China), Silmet of Estonia and Treibacher of Austria. The market is highly competitive with respect to price, quality and security of supply.

Until its processing operations at Mountain Pass were suspended in March 1998 by the California EPA due to a leak from a wastewater pipeline, Molycorp was the only major fully integrated rare earths producer in the western world ie the company mined, concentrated, refined and marketed rare earths from ore to finished product. Its present operations are confined to the production of bastnaesite concentrates (5000 tonnes REO pa) and the sale of rare earth compounds from stocks. An Environmental Impact Statement has been completed for a 30 year expansion and waste management plan that would enable Molycorp to recommence production of separated rare earths. No

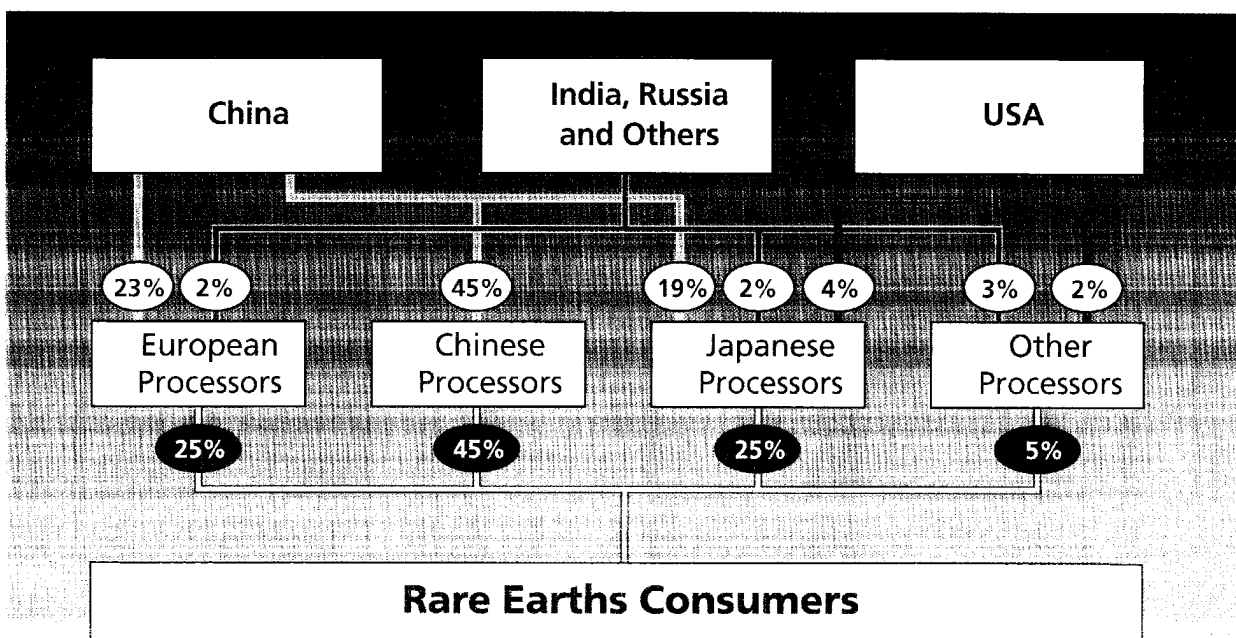
announcement has been made on a commitment to this project.

Rhodia, the major producer of 'value-added' rare earth products, operates the only substantial rare earth separation plant outside China, at La Rochelle in France. As this facility has no captive source of rare earth minerals, Rhodia imports the majority of the raw materials in the form of rare earth nitrates from China, with minor quantities from other countries. (The processing of Western Australian monazite at La Rochelle ceased in 1994 due to disposal issues associated with the waste.) The company has a substantial commitment (7-8% of revenue) to research and product development, resulting in the introduction of 'leading edge' products on a regular basis.

There are several Japanese processors each with a particular market niche, based upon their own high purity/high value products. These processors import their raw materials from China, India, the former CIS and the USA (to a lesser extent in the past few years, due to the partial closure of Molycorp). During the 1990s, many Japanese rare earth companies were struggling to make satisfactory returns on their investments due to the appreciation of the Japanese Yen and the aggressive pricing strategy of the Chinese producers. As a result there were many plant closures in Japan during that time. In several cases the processing equipment has been re-located to China where it has become an integral part of new supply arrangements.

China made a concerted effort in the 1990s to become the major rare earths producer/supplier, and now supplies an

FIGURE 1: RARE EARTHS RAW MATERIAL SUPPLY



Note: The above figure has an accuracy of $\pm 5\%$ in absolute terms

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estimated 85-90% of the world's rare earths as concentrates, intermediate products and rare earth chemicals as highlighted in Figure 1.

4.2 Current Market Supply

This aggressive approach by China came at a price with many rare earth processing companies losing money in 1998/99 during the aftermath of the Asian financial crisis, when there was overproduction, due to the reduced demand. In order to remedy the situation the following actions were taken by China in the year 2000:

- The major producers of light rare earths set a minimum price for a range of products.
- Subsidies/assistance to inefficient producers were curtailed.
- The Chinese government limited the number of rare earths export licences.

Total exports in 2000 were estimated at 50-60,000 tonnes REO equivalent. As a result, in 2001 the Chinese State Planning Commission put a 'cap' on exports of processed rare earths of 55,000 tonnes REO equivalent. Even so there was still an oversupply situation in 2001; so the Commission reduced the 'cap' on exports to 45,000 tonnes REO equivalent in 2002. Today, the rare earths market is still over-supplied so restrictions are likely to remain in place until further notice.

While the above events were unfolding on the separated rare earths commercial/marketing front there were a number of short-term constraints building up in the supply of rare earth mineral concentrates. As the bastnaesite/monazite

produced at Bayenobo mine (in Inner Mongolia) is a by-product of an iron ore mining operation, when iron ore production was curtailed due to substitution by imported high-grade iron ore from Australia, the availability of rare earth concentrates was also curtailed. At the same time, in order to arrest the growing dissent of the local population in southern China, the local and national governments imposed strict environmental controls on the mining and processing of the ionic adsorption clays. The net result was a temporary reduction in the availability of mineral concentrates.

As a result of this perceived shortage of rare earth minerals in 2000/01 the following developments were commenced

to address the situation:

- Expansion of bastnaesite mining in northeast China (Sechuan).
- Molycorp evaluated the technical and financial viability of constructing a tailings dam at Mountain Pass, which would have enabled production to rise from 5,000 to 20,000 tonnes REO per annum.
- Development of effective environmental management techniques in southern China, to allow the mining of ion adsorption clays to expand.
- Evaluation of the Mt Weld, Nolan's Bore and Dubbo rare earths projects in Australia.

The rapid change in the balance of supply and demand in mid-2001 negated the need for the above developments to proceed. Nevertheless, there has been a growth in the supply of Chinese rare earth mineral concentrates which is putting downward pressure on prices.

4.3 Market Demand in 2000

A breakdown of the demand for rare earths in 2000 in terms of application and geographical location is given in Table 6. This table has an estimated accuracy of $\pm 10\%$ due to the lack of published data. More recent reliable demand data is not available due to the large over-supply situation,

TABLE 6: WORLD RARE EARTHS MARKETS 2000 (TONNES REO)

APPLICATION	NORTH AMERICA	EUROPE	ASIA	CHINA	OTHERS	TOTAL 2000
Catalysts	9,500	3,500	2,000	2,000	500	17,500
Glass	3,250	4,500	13,000	3,250	1,500	25,500
Metal Alloys	1,750	1,000	3,250	5,300	1,000	12,500
Magnets	1,500	750	4,250	3,500	500	10,500
Ceramics	500	200	1,500	750	50	3,000
Phosphors	500	1,000	3,000	1,000	500	6,000
Other	150	100	500	3,200	50	4,000
Totals	17,150	11,050	27,500	19,200	4,100	79,000

Source: Roskill's 'Economics of Rare Earths and Yttrium, 2001'

which distorts import/export statistics.

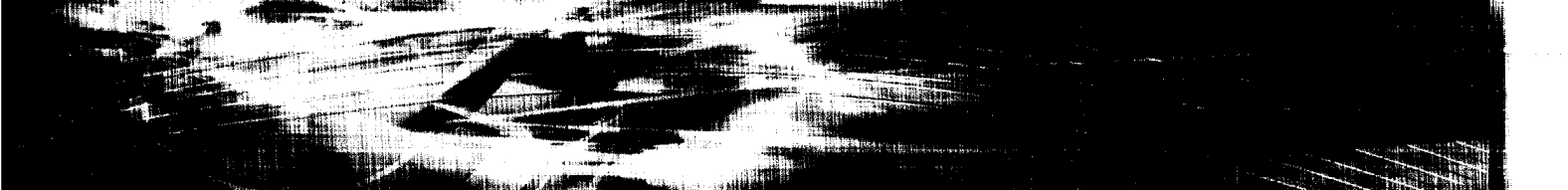
Comment on the forecast trends by each of the broad applications identified in the above table is given in the section below.

4.4 Forecast Demand Trends

Over the next few years, the trend in demand will probably continue towards individual compounds, metals and special mixtures, for use in magnets, glass additives, catalysts, batteries and specialty alloys.

Catalysts

In recent years the current demand for light rare earth concentrates for the production of fluid cracking catalysts, which are lanthanum rich, has increased in line with the growth



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in Gross World Product (GWP). With the rising price of oil there is a greater tendency to recover/process the heavy oils, which require more catalysis to 'crack', creating the potential for an increase in demand.

In 2001 Ford announced that it had developed a technology that could enable it to replace 50% of the platinum group metals with rare earth oxides. Accordingly, the recent rise in platinum group metal prices could lead to a wider adoption of this technology, thereby boosting demand for the rare earths.

As environmental awareness increases, the demand for cerium for autocatalysts - to reduce exhaust emissions - is expected to grow at rates considerably in excess of the growth of GWP. Many of the Asian countries, including China, have strict auto-emission standards in place that are leading to a steady increase in demand.

Glass

Cerium concentrates are used in the production of polishing powders for cathode ray tubes, lenses, and mirrors and as additives for cathode ray tube faceplates, to reduce 'browning' effects. Demand for these applications is forecast to grow faster than GWP due to the demand for larger TV screens in the developed countries and the high growth in demand for computers and TVs in developing countries. Recently the polishing powder producers have adapted their technology to meet the needs of the computer industry, where it is used in the mechano-chemical polishing of computer chips. This new sector of the industry, which is based upon nano-particles of high purity cerium oxide, has experienced growth rates in excess of 15%pa in the recent past.

Metal Alloys

Demand in this sector is growing significantly as lanthanum-nickel-hydride batteries are acknowledged worldwide as an environmentally acceptable alternative to nickel-cadmium batteries. In addition, lanthanum-nickel-hydride batteries are often the preferred battery for the new hybrid gasoline-electric vehicles, such as the Honda Insight. As the legislated minimum percentage of sales of zero emission vehicles increases in the USA, the consumption of these rare earth batteries will rise accordingly.

In the medium to long term, demand for lanthanum-rich mischmetal as an additive to magnesium alloys, to improve their creep resistance for automotive applications, could constitute a significant portion of this sector.

Currently, the use of rare earths (in an unseparated alloy form) in the steel and casting industries is relatively static on a world scale. The Chinese rare earth producers continue to invest considerable technical resources to develop new applications in this industry. Anecdotal evidence suggests that they are now starting to enjoy some success in

marketing their advantages to the North American foundries. Accordingly, this could be a growth area in the future.

Magnets

The growth in demand for neodymium iron boron bonded and sintered magnets was 15-30% per annum over the past ten years. Subject to no significant supply or price constraints growth in demand could be expected to exceed 10% per annum for the immediate future. As the consumption of neodymium is close to the theoretical content of the ores processed, continued high growth in demand could lead to significant price rises, which in itself could restrain consumption.

The growth in demand for samarium cobalt magnets, which are more stable at high temperatures than neodymium iron boron magnets, could continue to grow at more than 5% per annum.

As Magnequench International, the major producer of sintered magnets, is now owned by a Chinese company, coupled with the fact that China is the major source of raw materials, it is anticipated that the centre of rare earth magnet manufacture will move from Japan to China in the coming years.

Ceramics

Engineering ceramics are an important growth area in industrialised countries and specialty rare earth applications in this industry are expected to exhibit steady growth in the new millennium. The rare earth in most demand for this application is yttrium; most often in the form of yttria (yttrium oxide) in yttria stabilised zirconia (YSZ).

Phosphors

A steady growth in demand for phosphors (which generally incorporate europium, terbium and cerium) for use in digital displays and energy-efficient trichromatic light globes is forecast for this decade. China is now the largest centre for the production of phosphors, through the transfer of technology from Japanese companies, who wished to move production off-shore to reduce costs.

5. RARE EARTH PRICES

The selling prices of rare earths are difficult to determine as over 70% of the rare earths are sold through confidential supply agreements. Furthermore, the Western producers no longer publish price lists and the Chinese producers have suspended publishing prices on the internet in the current over-supply situation.

Until recently prices for mixed rare earth chemical concentrates were in the range of US\$3-5 per kg REO contained. However, current indicative prices for these concentrates are in the range of US\$1-3 per kg REO contained. On this basis, given the current over-supply situation, it appears

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prices are unlikely to recover to the levels of the 1990s in the immediate future.

In the late 1980s the 'finished rare earths' market was primarily driven by the demand for cerium for glass and polishing powder applications. In the early 1990s the market was driven by the demand for europium for phosphor applications. At one stage the price for europium oxide exceeded US\$1000 per kg, which fell back to less than US\$200 per kg in the late 1990s, with recent prices in the range of US\$250-350 per kg. In more recent times the market has been driven by the demand for neodymium through its use in magnets for lap-top computer drives, personal audio/visual equipment and voice coils.

The slowdown in demand for rare earths by the telecommunications and computing industries in 2001/2 had a significant impact on the demand for and hence the prices of rare earths. This downward trend has continued through, with recent indications that there are still excess stocks available, keeping prices at historically low levels. Demand is not expected to return to the levels of 2000 until later in the decade. Table 7 gives examples of typical prices for separated rare earths over the past 5 years.

TABLE 7: TYPICAL PRICES OF RARE EARTH OXIDES, 1998, 2000 and 2002 (US\$/KG)

Rare Earth Oxide	1998	2000	2002
Cerium Oxide (99%)	6-8	5-7	2-6
Neodymium Oxide (95%)	10-14	14-17	5-10
Yttrium Oxide (4N)	20-25	10-15	6-12
Europium Oxide (4N)	200-250	250-300	250-350

At the current price levels many of the Chinese rare earths processors are operating at a loss. This situation cannot continue indefinitely but, based on past experience, is likely to endure for some time before production cut-backs generate price rises.

6. ESTIMATED FUTURE TOTAL DEMAND

The total demand for all the individual rare earths is always less than the total production of rare earths, as the ratio of demand does not match their relative natural abundance. Under these conditions stockpiles of the rare earths that are not in full demand are built-up, often leading to price cutting in the medium term to stimulate demand for these rare earths.

Total demand for rare earths in 1990 was approximately 30,000 tonnes of REO equivalent, which increased to approximately 80,000 tonnes of REO equivalent in the year 2000, representing an average growth in demand of 9-10% pa in the last decade of the past century.

Due to the unduly optimistic growth forecasts for the telecommunications, electronics and computing industries in 2000/01, artificially high demands for raw materials such

as rare earths were created. As a result there has been a slump in demand in 2001 and 2002 due to over-stocking. Estimated demand in the last two years has fallen to approximately 70,000 tonnes of REO equivalent. Even so, production capacity in China continued to increase in 2001 on expectations of an early return to growth rates in excess of 5% p.a.

Growth in demand for rare earths is expected to recommence in 2004/2005. However should the current subdued demand by the telecommunications and computing industries (which impacts on the demand for the glass, phosphor and magnet sectors) lapse into a downturn, then a situation in which supply exceeds demand and prices are low would continue.

7. OPPORTUNITIES FOR NEW SUPPLIERS

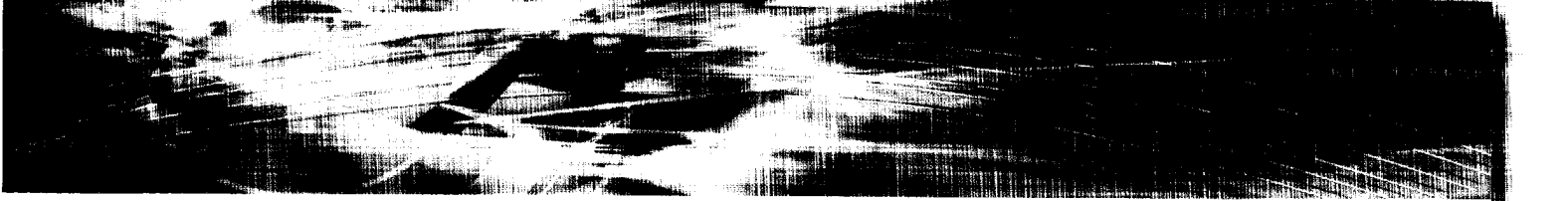
The abundance of rare earths and the multiplicity of sources of supply have given researchers and industrialists the confidence to continuously identify and develop new applications in the confidence that there would be no raw material shortages. As a result, over the past 25 years there has been a high growth in demand for rare earths.

Currently the market is well supplied, however, if the mineral shortages witnessed in 2000/01 were to be repeated or China were to use its market power to artificially raise prices to unacceptable levels, then opportunities would be created for 'new' rare earth producers.

A continuing rise in demand for rare earth magnets is likely to lead to an early recovery in the price of neodymium. Similarly a rising demand for digital displays and hence, for phosphors, could lead to stronger prices for europium. As a consequence of which, those ores with a relatively higher concentration of these rare earths, could be sold at a premium.

Ironically, while rare earths themselves are seen to be promoting a greener environment through their use in autocatalysts, non-toxic batteries and energy efficient motors, several of the world's current rare earth raw material sources are constrained by environmental concerns. Rhodia Electronics and Catalysis no longer imports monazite from Australia due to the problems associated with disposing of the thorium waste. Environmental constraints are limiting the mining of ionic clays in southern China.

In summary, while there is a large surplus of downstream rare earths processing capacity, particularly in China (where it is estimated to be 2-3 times world demand), rare earth mineral concentrate supply could be constrained in the longer term. To exploit this potential shortage, any new concentrate supplier needs to be able to demonstrate a long life resource, compliance with the highest environmental standards and a long-term cost effective processing technology capable of manufacturing products to meet the ever increasing demands of customer specifications.



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8. BIBLIOGRAPHY

In association with the information held on file by IMCOA the articles identified below have been used to develop the above past, current and future overview of the rare earths market.

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6 August 2003

The Directors
Arafura Resources NL
Level 2, 9 Bowman Street
SOUTH PERTH WA 6151

Dear Sirs

INVESTIGATING ACCOUNTANT'S REPORT

1. Introduction

This report has been prepared at the request of the directors of Arafura Resources NL ("Arafura") for inclusion in a Prospectus to be lodged by Arafura with the Australian Securities and Investments Commission in August 2003 inviting participation in the issue of Arafura of 17,500,000 ordinary shares at an issue price of \$0.20 each to raise up to \$3,500,000.

All amounts are expressed in Australian Dollars unless otherwise stated.

2. Background

The company was incorporated on 3 December 1997 as Arafura Resources NL. Since incorporation and up to 22 July 2003 the company has issued 37,358,342 shares and 23,500,000 options to raise \$961,801. These funds have been utilised to acquire, explore and evaluate mineral tenements, purchase fixed assets, assist with the issue of this prospectus and to cover the operating costs of the company.

On 17 July 2001 Arafura acquired 100% of the issued capital of McCleary Exploration and Mining Pty Ltd.

3. Capital Structure

This Prospectus is offering 17,500,000 fully paid ordinary shares in Arafura at an issue price of \$0.20 each, together with one attaching option granted free for every 2 shares issued at an exercise price of \$0.20 and with an expiry date of 30 June 2008 to raise up to \$3,500,000. As at 30 June 2003 the shareholding of the company was as follows:

Shareholders at 30 June 2003	Number of Shares	%	Number of Options	%
Subscriber	5	0.0	-	0.0
Vendor	12,291,670	32.9	6,000,000	25.6
Promoters	11,000,000	29.4	5,500,000	23.4
Seed	14,066,667	37.7	12,000,000	51.0
TOTAL	37,358,342	100.0	23,500,000	100.0

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At a general meeting held on 29 July 2003 the shareholders of Arafura approved the reduction of shares and options on the following basis:

- Vendor shares reduced on the basis of (3) three fully paid ordinary shares for every (10) ten existing fully paid ordinary shares and (3) three options for every (10) ten existing issued options held in the company;
- Promoter shares reduced on the basis of (4) four fully paid ordinary shares for every (10) ten existing fully paid ordinary shares and (4) four options for every (10) ten existing issued options held in the company; and
- Seed shares reduced on the basis of (2) two fully paid ordinary shares for every (10) ten existing fully paid ordinary shares and (2) two options for every (10) ten existing issued options held in the company.

As a result of the approval of the above capital reduction and the successful completion of the issue, the capital structure and ownership of Arafura will be as follows:

Shareholders	Number of Shares	%	Number of Options	%
Subscriber	5	0.0	-	
Vendor	8,604,169	19.6	4,200,000	16.2
Promoters	6,600,000	15.0	3,300,000	12.8
Seed	11,253,334	25.6	9,600,000	37.1
Public	17,500,000	39.8	8,750,000	33.9
TOTAL	43,957,508	100.0	25,850,000	100.0

4. Basis of Preparation

This report has been included in the Prospectus to assist investors and their financial advisers to make an assessment of the financial position and performance of Arafura. This report does not address the rights attaching to the shares to be issued in accordance with this Prospectus, nor the risks associated with the investment.

The Directors of Arafura have requested Horwath Securities (WA) Pty Ltd ("Horwath") to prepare an Investigating Accountant's Report for inclusion in this Prospectus dealing with the following financial and other information:

- (i) the reviewed results of Arafura and controlled entities for the 6 months ended 30 June 2003;
- (ii) the reviewed statement of financial position of Arafura and controlled entities as at 30 June 2003; and
- (iii) the proforma statement of financial position of Arafura and controlled entities as at 30 June 2003 adjusted to include funds to be raised by the Prospectus and the completion of the transactions referred to in Note 2 of Appendix 3.

5. Scope of Review

Our review has been conducted in accordance with Auditing Standard AUS 902 "Review of Financial Reports". Our review was limited primarily to enquiries of company personnel, review of the historical and proforma financial information, analytical procedures applied to financial data, performance of certain limited verification procedures and comparison of consistency in application of accounting standards and policies.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

We have not valued the mineral properties being the capitalised exploration expenditure incurred on the tenements. The value of the mineral properties have been stated at cost. The value of the mineral properties is dependent upon the successful development and commercial exploitation or sale of the tenements.

6. Statement

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the financial information as set out in Appendix 1 and 2 does not present fairly:

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- (i) the results of Arafura and controlled entities for the period ended 30 June 2003;
- (ii) the statement of financial position of Arafura and controlled entities as at 30 June 2003; and
- (iii) the proforma statement of financial position of Arafura and controlled entities as at 30 June 2003 adjusted to include funds to be raised by the Prospectus and the completion of the transactions referred to in Note 2 of Appendix 3,

in accordance with the accounting methodology required by applicable Accounting Standards, Urgent Issues Group Consensus Views and the accounting policies adopted by Arafura as described in Note 1 and on the basis of the assumptions and transactions set out in Appendix 3.

7. Subsequent Events

Other than the matters referred to in Note 10 to the financial statements, there have been no material items, transactions, or events subsequent to 30 June 2003 which relate to conditions existing at that balance date which require comment or adjustment to the figures in this report.

To the best of our knowledge and belief, there have been no material items, transactions or events subsequent to 30 June 2003 which, although they do not relate to conditions existing at that date, would cause reliance on the figures in this report to be misleading.

8. Declarations

- (a) Horwath will be paid a fee of \$7,500 based upon normal charge rates and professional time incurred in the compilation of information and the preparation of this report. The involvement of Horwath in the preparation of this Prospectus is limited to the preparation of this report, other than Horwath Perth, a partnership of which Mr Glyn O'Brien is a partner, is the auditor of Arafura, has assisted the directors with their due diligence for this Prospectus and provided an independent valuation report in relation to options issued;
- (b) Horwath was not involved in any other aspect of the Prospectus and did not authorise or cause the issue of any other part of the Prospectus and we have only issued our consent in respect of the inclusion of this report in the Prospectus;
- (c) The author of this report does not have any interest in Arafura or the shares offered by this Prospectus;
- (d) The giving of our consent for the inclusion of this report should not be taken as an endorsement of Arafura or a recommendation by Horwath of any participation in the offer by any intending investors;
- (e) The author of this report gives no assurance or guarantee whatsoever in respect of the future success of or financial returns associated with the subscription for shares being offered pursuant to this Prospectus: and
- (f) This report should be read as a whole and no part of it quoted, otherwise referred to, or produced without prior written consent of Horwath.

Yours faithfully

HORWATH SECURITIES (WA) PTY LTD

HORWATH SECURITIES (WA) PTY LTD
Glyn O'Brien

GLYN O'BRIEN
Director

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APPENDIX 1

Arafura Resources NL

Statement of Financial Performance

For the Period Ended 30 June 2003

	Audited 30 June 2003 Consolidated \$
Revenue from ordinary activities	22,821
Depreciation	(721)
Employee benefits expense	(43,388)
Expenses from ordinary activities	<u>(102,405)</u>
(Loss) from ordinary activities before income tax expense	(123,693)
Income tax expense relating to ordinary activities	-
(Loss) from ordinary activities after related income tax expense	<u>(123,693)</u>
NET (LOSS)	<u><u>(123,693)</u></u>

To be read in conjunction with Appendix 3

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APPENDIX 2

Arafura Resources NL

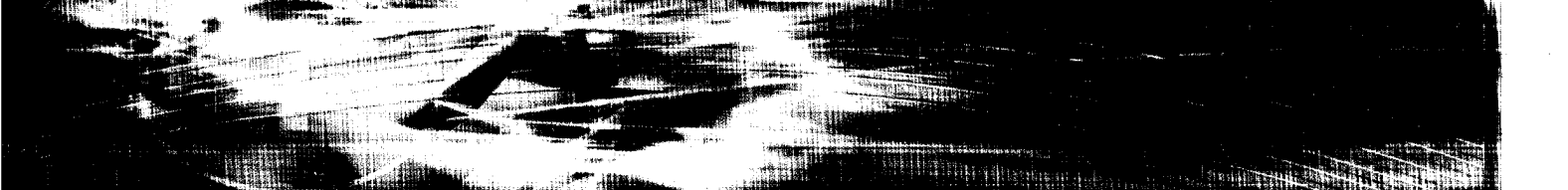
Statement of Financial Position

As at 30 June 2003

	Note	Audited 30 June 2003 Consolidated \$	30 June 2003 Proforma \$
CURRENT ASSETS			
Cash	3	109,789	3,192,356
Receivables	4	9,213	9,213
Other	5	<u>169,067</u>	<u>-</u>
TOTAL CURRENT ASSETS		<u>288,069</u>	<u>3,201,569</u>
NON-CURRENT ASSETS			
Property, plant and equipment	6	1,700	1,700
Other	7	<u>431,954</u>	<u>431,954</u>
TOTAL NON-CURRENT ASSETS		<u>433,654</u>	<u>433,654</u>
TOTAL ASSETS		<u>721,723</u>	<u>3,635,223</u>
CURRENT LIABILITIES			
Payables	8	<u>114,765</u>	<u>114,765</u>
TOTAL CURRENT LIABILITIES		<u>114,765</u>	<u>114,765</u>
TOTAL LIABILITIES		<u>114,765</u>	<u>114,765</u>
NET ASSETS		<u>606,958</u>	<u>3,520,458</u>
EQUITY			
Contributed equity	9	961,801	3,875,301
Accumulated profits/(losses)		<u>(354,843)</u>	<u>(354,843)</u>
TOTAL EQUITY		<u>606,958</u>	<u>3,520,458</u>

To be read in conjunction with Appendix 3

Arafura Resources NL Prospectus



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APPENDIX 3

Arafura Resources NL

Notes to the Statement of Financial Position and Statement of Financial Performance

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The statement of financial position and statement of financial performance (collectively referred to as the "financial statements") have been prepared in accordance with applicable Accounting Standards and Urgent Issues Group Consensus Views. The disclosure requirements of applicable Accounting Standards have only been applied as considered relevant and appropriate.

The financial statements have also been prepared on the basis of historic cost and do not take into account changing money values or current values of non-current assets.

Cost is based on the fair values of the consideration given in exchange for assets. The accounting policies have been consistently applied, unless otherwise stated.

(b) Exploration and Evaluation Expenditure

Exploration and evaluation expenditure incurred by or on behalf of the consolidated entity is accumulated separately for each area of interest. Exploration expenditure is carried forward where right of tenure of the area of interest is current and:

- (i) such costs are expected to be recouped through successful development and exploitation of the area of interest or, alternatively, by its sale; or
- (ii) exploration activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing.

Exploration expenditure which no longer satisfies the above policy is written off. In addition, a provision is raised against exploration expenditure where the Directors are of the opinion that the carried forward net costs may not be recoverable. The increase in the provision is charged against the results for the year.

Restoration costs expected to be incurred are provided for as part of exploration, evaluation, development or production phases that give rise to the need for restoration. Accordingly, these costs are recognised gradually over the life of the facility as these phases occur.

(c) Principles of Consolidation

The consolidated accounts incorporate the assets and liabilities of all entities controlled by Arafura Resources NL ("company" or "parent entity") as at 30 June 2003 and the results of all controlled entities for the year then ended. The company and its controlled entities together are referred to in this financial report as the economic entity. The effects of all transactions between entities in the economic entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated statement of financial performance and statement of financial position.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control exists.

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Arafura Resources NL

Notes to the Statement of Financial Position and Statement of Financial Performance

(d) Income Tax

The company adopts the liability method of tax-effect accounting whereby the income tax expense shown in the statement of financial performance is based on the operating profit before income tax adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of operation profit before income tax and taxable income are brought to account either as provision for deferred income tax or an asset described as future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(e) Depreciation of Property, Plant and Equipment

Depreciation is calculated on a reducing balance basis to write off the net cost of each item of property, plant and equipment over its expected useful life.

(f) Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

(g) Recoverable Amount

The recoverable amount of an asset is the net amount expected to be recovered through the net cash inflows arising from its continued use and subsequent disposal.

Where the carrying amount of a non-current asset is greater than its recoverable amount the asset is re-valued to its recoverable amount. Where net cash inflows are derived from a group of assets working together, recoverable amount is determined on the basis of the relevant group of assets. To the extent that a revaluation decrement reverses a revaluation increment previously credited to, and still included in the balance of, the asset revaluation reserve, the decrement is debited directly to that reserve. Otherwise the decrement is recognised as an expense in the statement of financial performance.

(h) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the company.

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Arafura Resources NL

Notes to the Statement of Financial Position and Statement of Financial Performance

2. ACTUAL AND PROPOSED TRANSACTIONS TO ARRIVE AT PROFORMA STATEMENT OF FINANCIAL POSITION

The proforma statement of financial position reflects the 30 June 2003 statement of financial position adjusted to reflect the effect of the actual and proposed transactions pursuant to the proposed capital raising and assumes no oversubscription of shares. The transactions reflected in the proforma are as follows:

- a) The issue of 17,500,000 fully paid ordinary shares at an issue price of \$0.20 each to raise \$3,500,000.
- b) At a general meeting held on 29 July 2003 the shareholders of Arafura approved the reduction of shares and options on the following basis:
 - Vendor shares reduced on the basis of (3) three fully paid ordinary shares for every (10) ten existing fully paid ordinary shares and (3) three options for every (10) ten existing issued options held in the company;
 - Promoter shares reduced on the basis of (4) four fully paid ordinary shares for every (10) ten existing fully paid ordinary shares and (4) four options for every (10) ten existing issued options held in the company; and
 - Seed shares reduced on the basis of (2) two fully paid ordinary shares for every (10) ten existing fully paid ordinary shares and (2) two options for every (10) ten existing issued options held in the company.
- c) The costs of the capital raising of \$586,500 in relation to the Prospectus and share issue which are to be offset against the capital raised.

	Audited 30 June 2003 Consolidated	30 June 2003 Proforma
3. Cash		
Cash at bank	109,789	3,192,356
Proforma adjustments		
• Audited 30 June 2003		109,789
• Shares issued pursuant to this Prospectus		3,500,000
• Prospectus issue costs		(192,443)
• Management and broking fees		(225,000)
		<u>3,192,356</u>
4. Current receivables		
Other	9,213	9,213
5. Other current assets		
Prepayments	169,067	-
6. Property, plant and equipment		
Plant and equipment at cost	1,700	1,700
7. Other non-current assets		
Exploration and evaluation expenditure at cost	431,954	431,954

There may exist, on the company's mineral tenements, areas subject to claim under native title or containing sacred sites or sites of significance to Aboriginal people. As a result the mineral properties or areas within the tenements may be subject to exploration and mining restrictions.

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APPENDIX 3

Arafura Resources NL

Notes to the Statement of Financial Position and Statement of Financial Performance

	Audited 30 June 2003 Consolidated	30 June 2003 Proforma
8. Accounts payable		
Trade creditors	76,756	76,756
Other creditors and accruals	38,009	38,009
	<u>114,765</u>	<u>114,765</u>
9. Share capital		
Issued capital		
Paid ordinary shares	<u>961,801</u>	<u>3,875,301</u>
Proforma adjustments	Number	\$
Audited 30 June 2003	37,358,342	961,801
Capital reduction	(10,900,834)	-
Issue of 17,500,000 shares pursuant to this Prospectus	17,500,000	3,500,000
Prospectus issue costs	-	(586,500)
	<u>43,957,508</u>	<u>3,875,301</u>

Options	Exercise Price	Number	Exercise Date
<i>Vendor Options</i>	20 cents	4,200,000	30 June 2008
<i>Promoter Options</i>	20 cents	3,300,000	30 June 2008
<i>Seed Capital Options</i>	20 cents	9,600,000	30 June 2008
<i>Attaching Options</i>	20 cents	8,750,000	30 June 2008

10. Subsequent events

Other than the matters referred to below, there have been no material items, transactions, or events subsequent to 30 June 2003 which relate to conditions existing at that balance date which require comment or adjustment to the figures in this report.

At a general meeting held on 29 July 2003 the shareholders of Arafura approved the reduction of shares and options on the following basis:

- Vendor shares reduced on the basis of (3) three fully paid ordinary shares for every (10) ten existing fully paid ordinary shares and (3) three options for every (10) ten existing issued options held in the company;
- Promoter shares reduced on the basis of (4) four fully paid ordinary shares for every (10) ten existing fully paid ordinary shares and (4) four options for every (10) ten existing issued options held in the company; and
- Seed shares reduced on the basis of (2) two fully paid ordinary shares for every (10) ten existing fully paid ordinary shares and (2) two options for every (10) ten existing issued options held in the company.

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Arafura Resources NL

Notes to the Statement of Financial Position and Statement of Financial Performance

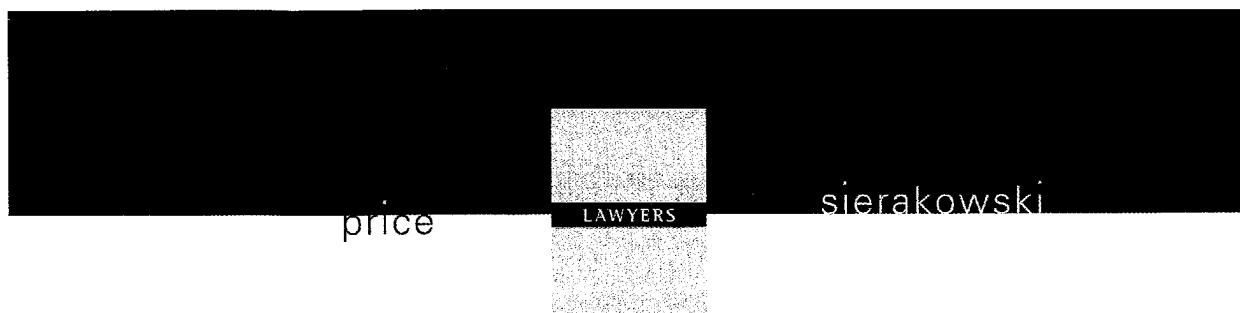
11. Exploration commitments

In order to maintain current rights of tenure to exploration and mining tenements, the consolidated entity has the following discretionary exploration expenditure requirements up until expiry of the leases. These obligations, which are subject to renegotiation upon expiry of the leases, are not provided for in the financial statements and are payable:

Not later than one year	1,340,000
Later than one year but not later than 2 years	675,000
Later than 2 years but not later than 5 years	-
Later than 5 years	-

The expenditure commitments may be reduced by separate agreements and undertaking entered into by the consolidated entity or they may increase if the consolidated entity is successful with further exploration.

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21 August 2003

The Directors
Arafura Resources NL
Level 2
9 Bowman Street
South Perth WA 6151

Dear Sirs

SOLICITORS' REPORT ON MINING TENEMENTS

This report has been prepared for inclusion in the prospectus to be issued by Arafura Resources NL (the "Company") dated on or about 25 August 2003 to raise up to \$3,500,000 ("the Prospectus"). The offer in the Prospectus comprises the issue by the Company of 17,500,000 fully paid ordinary shares at \$0.20 each with one attaching free option for every two shares issued. These options are exercisable at \$0.20 each on or before 30 June 2008.

We have been requested to report on the various mining tenement interests to which the Company is entitled to or has acquired rights (the "Tenements"). Details of these mining tenement interests are listed in the attached Schedule of Tenements (the "Schedule") which, together with the notes to the Schedule (the "Notes") and the Material Contracts Summary (the "Agreements") forms part of this report.

All of the Company's Tenements are located in the Northern Territory of Australia.

The Company has granted mineral claims, exploration licences, granted authorities to explore under s.178 *Mining Act 1980 (NT)* ("MNT"), applications for exploration licences and authorities. The Tenements to which these various rights relate are identified in the Schedule.

1. SEARCHES

We conducted searches of the Tenements listed in the Schedule in the registers maintained by the Northern Territory Department of Business, Industry and Resource Development ("DBIRD") on 14 February 2003. We have also reviewed searches of the National Native Title Tribunal's ("NNTT") Darwin register in relation to the Tenements as at 15 February 2003.

As a result of those searches and our perusal of the material contracts set out in the Agreements, we consider this report provides an accurate statement, as at the date of the respective searches, as to the status of the Tenements and the interests of the Company in those Tenements. We have assumed the information in the registers maintained by DBIRD and NNTT is accurate. The references in the Schedule to the areas of the Tenements are taken from details shown on DBIRD's and NNTT's registers, no survey was conducted to verify the accuracy of Tenement areas. We have further assumed that the Company's seals and signatures on all the Agreements are authentic, and that the Agreements are and were within the capacity and powers of and were validly authorised, executed and delivered by and are binding on the parties to them and comprise the entire agreements of the parties to each of them with respect to their respective subject matters.

2. ABORIGINAL SITES

The Tenements will be subject to the provisions of the *Aboriginal and Torres Strait Islander Heritage Protection Act (1984) (Cth)* (the "Commonwealth Heritage Act"). This Act contains provisions designed to preserve and protect from injury

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or desecration areas and objects which are of particular significance to Aboriginal people in accordance with Aboriginal tradition. An area or object is found to be desecrated if it is used or treated in a manner inconsistent with Aboriginal tradition.

Further the provisions of the *Northern Territory Aboriginal Sacred Sites Act 1978 (NT)* (the "NT Heritage Act") apply to all the Tenements. The NT Heritage Act defines a sacred site as a site that is sacred to Aboriginals or otherwise of significance according to the Aboriginal tradition. The Act established the Aboriginal Areas Protection Authority ("AAPA") which is empowered, amongst other things, to establish and maintain a register of sacred sites. Sacred sites will only be recorded by the AAPA if so requested by a custodian or where the Authority has itself identified a sacred site as a result of its own previous work in the area.

AAPA has conducted some heritage surveys over land by subject of the Tenements. As a result of these surveys commissioned by the Company or previous vendors or interest holders of the subject Tenements, the Company has been issued with AAPA certificate C2001/062 which applies to tenement AN 389 and adjacent areas; and AAPA Certificate C2001/064 which applies to parts of tenements EL 9672 and SEL 23671 and which covers the Nolans Bore prospect and its surrounds. The Company has also applied to AAPA to re-issue Certificates C96/042 (Homestake Gold of Australia Limited) and C93/197 (Pine Creek Goldfields Limited) in respect of tenement ERL 116 and adjacent areas. The issue of such a Certificate grants to Arafura an indemnity if at any time in the future it is alleged that the Company damaged or entered a sacred site within the tenements covered by the Certificate.

The Company will need to ensure that any interference with such sites is in strict conformity with the provisions of the Commonwealth Heritage Act and NT Heritage Act.

3. NATIVE TITLE LEGISLATION

Judicial recognition of native title at common law occurred in *Mabo -v- Queensland (No 2)* (Mabo), a decision of the High court of Australia on 3 June 1992. Generally these native title rights to land will be recognised where:

- a) the claimants can establish that they have maintained a continuous connection with the land in accordance with their traditional laws and customs since British settlement in 1788; and
- b) the native title rights have not been lawfully extinguished.

The High Court held that native title rights can be lawfully extinguished by certain government legislation and executive actions which are not inconsistent with native title. In order for extinguishment to be lawful it must comply with the obligations imposed by the *Racial Discrimination Act 1975 (Cth)*.

After Mabo considerable uncertainties existed about the validity of proprietary rights in Australia, including mining tenements. To address those uncertainties the Commonwealth Parliament responded by passing the *Commonwealth Native Title Act 1993 (Cth)* ("NTA"). The NTA commenced on January 1994 and was substantially amended in 1998. In summary the NTA:

- a) provides for recognition and protection of native title;
- b) sets up mechanisms for determining claims for native title such as the "right to negotiate" which allows native title claimants to be consulted in relation to certain mining and other developments;
- c) make valid certain "past acts" which would otherwise be invalidated because of native title;
- d) establish ways in which "future acts" (eg the granting of mining tenement applications and converting exploration licences and prospecting licences to mining leases) affecting native title may proceed and how native title rights are protected, including rights to compensation; and
- e) provides a process by which claims for native title and compensation can be determined.

The Northern Territory has implemented the *Validation (Native Title) Act (NT) 1994 ("VTA")* which adopts the Commonwealth Act in the Northern Territory.

4. NATIVE TITLE CLAIMS

Persons claiming to hold native title may lodge an application for determination of native title with the Federal Court.

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Once a native title claim has been lodged, the Court will refer the application to the Native Title Registrar. The Native Title Registrar must determine whether the claim meets certain conditions concerning the merits of the claim, and certain procedural and other requirements set out by the NTA.

If the Native Title Registrar is satisfied the lodged claim meets the registration requirements set out in the Commonwealth Act ("Registration Test") it will be entered on the Register of Native Title Claims maintained by the National Native Title Tribunal ("Register"). Claimants of registered claims are afforded certain procedural rights under the Commonwealth Act including the "right to negotiate".

Claims which fail to meet the Registration Test are recorded on the Schedule of Applications Received. Such claims may be entered on the Register at a later date if additional information is provided by the claimant that satisfies the Registration Test.

All of the Company's Tenements are situated on pastoral leases. The recent High Court decision of *Ward v Western Australia and South Australia* (2002) HCA 28 (8 August 2002) established that where tenure such as a pastoral lease is granted, native title is extinguished to the extent that it is inconsistent with the rights conferred by the pastoral lease. The effect therefore of the granted pastoral leases on which the Tenements are situated is to extinguish the right of native title claimants to control the land, restrict access to the land and require permission for acts to be done.

A majority of the Tenements relate to land which is currently the subject of one or more native title claims. These claims are identified in the Schedule. The fact that a claim has been lodged does not necessarily mean that native title exists over the area claimed, nor does the absence of a claim necessarily indicate that no native title exists over that area.

We have not undertaken the considerable historical, anthropological and ethnographic work that would be required to determine the likelihood that existing claims may be successful, or the possibility of any further claims being made in the future.

5. VALIDITY OF THE TENEMENTS

a) Tenements granted prior to 1 January 1994

The NTA permits a State to validate 'past acts'. Under the NTA mining tenements granted in the Northern Territory prior to 1 January 1994 are deemed to be valid. With respect to the Tenements that were granted prior to 1 January 1994, native title (if any exists) has been suspended by their grant. To the extent that the exercise of native title rights and interests is inconsistent with the exercise of the rights conferred by those Tenements, the rights under each particular Tenement will have priority for the term of the relevant grant.

As set out in the Schedule the Company has six Tenements that were granted prior to 1 January 1994 as follows:

- ERL 116
- MCC 953, 952, 951, 950
- AN 389

b) Tenements granted between 1 January 1994 and 23 December 1996

The Northern Territory Government granted some mining tenements during the period between 1 January 1994 and 23 December 1996 without complying with the requirements of the NTA. Accordingly, there is a risk that some of the Tenements granted in this period may be invalid as a result of non compliance with the NTA. This risk has been removed by the 1998 amendments to the NTA and corresponding Northern Territory legislation so far as the Tenements were granted over land which is the subject of a pastoral lease or other prescribed leasehold land. The Company has only one Tenement that was granted during this period, EL 9672, the grant is considered to be valid.

c) Tenements granted since 23 December 1996

Mining Tenements granted since 23 December 1996 which affect native title rights and interests will be valid provided that the future act procedures set out in (d) below were followed by the relevant parties. We have not been instructed to analyse whether or not the relevant NTA procedures were followed in relation to each tenement, but are of the opinion that they were validly granted.

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EL 9824, EL 9701, EL 9709, EL 9725, EL 9823, EL 10004, EL 10136, EL 10137, EL 10214, EL 10215, EL 22269, EL 22270 and EL 22783 are all granted tenements that are classified as valid future acts under the NTA.

d) Future Tenement Grants

The valid grant of any mining tenement which may affect native title requires full compliance with the provisions of the NTA in addition to compliance with the usual procedures under the relevant Territory mining legislation. The primary procedure prescribed under the NTA is the "right to negotiate" process.

The right to negotiate process involves the publishing or advertising of a notice of the proposed grant of a tenement followed by a 6 month period of negotiation between the Territory Government, the tenement applicant and the relevant registered native title claimant. If agreement is not reached to enable the grant to occur, the matter may be referred to arbitration before the National Native Title Tribunal ("NNTT"), which has a further 6 months to reach a decision. The decision of the NNTT may be reviewed by the relevant Federal Minister.

The right to negotiate process is not required to be followed in respect of a proposed future act in instances where the expedited procedure applies. Under the NTA, a future act is an act attracting the expedited procedure if:

- (i) the act is not to interfere directly with the carrying on of the community or social activities of the persons who are the holders of native title in relation to the land; and
- (ii) the act is not likely to interfere with areas or sites of particular significance, in accordance with their traditions, to the persons who are holders of the native title in relation to the land; and
- (iii) the act is not likely to involve major disturbance to any land or waters concerned or create rights whose exercise is likely to involve major disturbance to any land.

When the proposed future act is considered to be one that attracts the expedited procedure, persons have until 3 months after the notification date to take steps to become a native title party in relation to the relevant act (for example the proposed granting of an exploration licence). The future act may be done unless, within four months after the notification day, a native title party lodges an objection with the NNTT against the inclusion of a statement that the proposed future act is an act attracting the expedited procedure. It has been the practice of the Company and the Territory administration to use the expedited procedure. All tenement applications by the Company at present are utilising this procedure.

If there are no native title parties or no objections lodged within the four month period, the act may be done. If one or more native title parties object to the statement, the NNTT must determine whether the act is an act attracting the expedited procedure. If the NNTT determines that it is, the Territory may do the future act (ie grant an exploration licence).

Further, the right to negotiate process does not have to be pursued in cases where an indigenous land use agreement ("ILUA") is negotiated with the relevant Aboriginal people and registered with the NNTT. In such cases, the procedures prescribed by the ILUA must be followed to obtain the valid grant of the tenement. These procedures will vary depending on the terms of the ILUA. At present the Company has an Exploration Agreement and an ILUA in place with the CLC in respect of four separate areas, details of these can be found in the Schedule of Material Contracts.

As set out in the Tenement Schedule, SEL 23671, AC 74, EL 23237, EL 9710, EL 9745 and MLA 23839 are all applications at different stages in the NTA future act process.

SEL 23671 was advertised on 21 May 2003. AC 74 was advertised on 11 December 2002 and is currently in the notice period with no objections lodged. EL 23237 was advertised 15 May 2002 and is currently awaiting grant. EL 9710 and EL 9745 were both advertised on 30 January 2002 and are now awaiting grant. MLA 23839 was applied for on 12 March 2003, and advertised on 9 April 2003 and is currently awaiting grant.

6. RENEWALS AND EXTENSIONS OF TENEMENTS

As with the granting of mining tenements, renewals and extensions of mining tenements granted prior to 1 January 1994, to the extent the renewals were invalid due to native title, have been validated by legislation.

Renewals of mining tenements granted between 1 January 1994 and 23 December 1996 have been similarly validated

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provided certain statutory criteria have been met.

Renewals made after 23 December 1996 of tenements validly granted before that date will not be subject to the right to negotiate process provided:

- (i) the area to which the earlier right is made is not extended;
- (ii) the term of the new right is not longer than the term of the earlier right; and
- (iii) the rights to be created are not greater than the rights conferred by the earlier grant.

There is doubt as to whether the right to negotiate process applies to second and subsequent renewals but this matter is yet to be determined by the Courts.

Other than as stated above, renewals of mining tenements are subject to the same right to negotiate process as is described in (d) above.

7. COMPLIANCE

The Company's interest in or right in relation to the granted Tenements are subject to the holder continuing to comply with the respective terms and conditions of the respective granted Tenements under the provisions of the MNT and regulations made pursuant to that legislation, together with the conditions specifically applicable to any granted mining tenement. We have sought and received confirmation from the Company that the various conditions in respect of each granted mining tenement have been met in all material respects.

8. QUALIFICATIONS

While the status of the Tenements is dealt with in detail in the Schedule and the Notes to the Schedule we point out by way of summary, that:

- (a) we have assumed that all searches conducted on our behalf by the departments are complete and accurate as at the time the searches were conducted;
- (b) we have assumed that all information or advice, whether oral or written provided to us by the Company, its officers, employees, agents or representatives is accurate and complete;
- (c) in relation to each tenement application we express no opinion as to whether such tenement application will ultimately be granted, (including whether relevant Ministerial consent will be obtained) nor the conditions to which such tenement application may be granted or may not be granted subject to; and
- (d) in relation to each native title claim outlined in this report we do not express an opinion on the merits of such native title claim.

9. CONSENT

This report is given solely for the benefit of the Company and the directors of the Company in connection with the issue of the Prospectus and is not to be relied on or disclosed to any other person or used for any other purpose or quoted or referred to in any public document or filed with any government body or other person without our prior consent.

Yours faithfully

PRICE SIERAKOWSKI



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Schedule of Mining Tenements

To be read in conjunction with the abbreviations and notes at the end of the Schedule.

Project Name and Tenement No. and Type	Registered Holder or Applicant	Shares Held	Grant/Renewal Application Date	Expiry Date	Area	Encumbrances (see Notes)	Other Relevant Information (see Notes)
Frances Creek							
AN 389	McCleary Exploration	100%	Renewed 08/11/02	14/11/04	4 sub blocks		9, 10
EL 10137	Arafura	100%	Granted 10/07/02	09/07/08	8 sub blocks	Nil	1, 9, 10, 11
EL 22269	Arafura	100%	Granted 25/02/02	24/02/08	18 sub blocks	Nil	11
EL 22270	Arafura	100%	Granted 10/07/02	09/07/08	1 sub block	Nil	9
ELA 23237	McCleary Exploration	100%	Application lodged 3/07/2001		22 sub blocks	Nil	3, 9, 10
Mt Porter							
ERL 116	Arafura	100%	Renewed 09/09/02	11/09/04	757 hectares		2, 10
MLA 23839	Arafura	100%	Application lodged 12/03/03		858 hectares	Nil	3, 9, 10
Mt Masson							
EL 9823	Arafura	100%	Granted 26/11/02	25/11/08	17 sub blocks	Nil	1, 9
Coronet Hill							
EL 10004	Arafura	100%	Granted 19/8/02	19/8/08	18 sub blocks	Nil	11
Kurinelli							
AC 74	Arafura	100%	Application lodged 30/09/1998		224 sub blocks	Nil	6, 7
EL 9701	Arafura	100%	Granted 10/07/02	9/07/08	316 sub blocks	Nil	6, 7
EL 9710	McCleary Investments	100%	Application lodged 30/09/1996		119 sub blocks	Nil	1, 8, 13
EL 9745	McCleary Investments	100%	Application lodged 28/10/1996		193 sub blocks	Nil	1, 8, 13
MCC 950	Arafura	100%	Renewed 26/06/02	31/12/11	12 hectares	Nil	6, 7
MCC 951	Arafura	100%	Renewed 26/06/02	31/12/11	16 hectares	Nil	6, 7
MCC 952	Arafura	100%	Renewed 26/06/02	31/12/11	20 hectares	Nil	6, 7
MCC 953	Arafura	100%	Renewed 26/06/02	31/12/11	20 hectares	Nil	6, 7
Nolans Bore							
EL 9672	Arafura	100%	Renewed 25/10/02	24/11/04	10 sub blocks	Nil	7
SEL 23671	Arafura	100%	Application lodged 19/08/02		500 sub blocks	Nil	4, 12
Hammer Hill							
EL 9725	Arafura	100%	Granted 18/12/01	17/12/07	285 sub blocks	Nil	7
EL 10136	Arafura	100%	Granted 13/02/02	12/02/08	441 sub blocks	Nil	7
Jervois							
EL 10214	Arafura	100%	Granted 06/12/01	05/12/07	319 sub blocks	Nil	
EL 10215	Arafura	100%	Granted 06/12/01	05/12/07	355 sub blocks	Nil	
Supplejack							
EL 9709	Arafura	100%	Granted 23/01/02	22/01/08	420 sub blocks	Nil	7, 13
EL 22783	Arafura	100%	Granted 22/03/02	21/03/08	170 sub blocks	Nil	7, 13
Carrara Range							
EL 9824	Arafura	100%	Granted 10/07/02	09/07/08	147 sub blocks	14	5, 14

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The following abbreviations are referred to in the Schedule, the Notes and the Agreements:

AC	means Authorisation under section 178 of the Northern Territory Mining Act (Central)
AN	means Authorisation under section 178 of the Northern Territory Mining Act (Northern)
Arafura	means Arafura Resources NL (ACN 080 933 455)
CLC	means Central Land Council
EL	means Exploration Licence
ELA	means Exploration Licence Application
ERL	means Exploration Retention Licence
ILUA	means Indigenous Land Use Agreement
MEM	means McCleary Exploration & Mining Pty Ltd (ACN 009 645 032)
McCleary Investments	means McCleary Investments Pty Ltd (ACN 009 627 132)
MCC	means Mineral Claim (Central)
MLA	means Mineral Lease Application
SEL	means Exploration Licence – Substitution

NOTES

1. The applicant holders have agreed to sell the Tenements to Arafura by Sale Agreement dated 8 January 2001 as summarised in the Agreements.
2. This Tenement was transferred to the Company pursuant to the Mt Porter Sale Agreement as summarised in the Agreements. In accordance with the provisions of that agreement Renison Limited lodged a copy of the agreement, dealing 91715, and caveat to protect its interests, dealing 91679.
3. The land subject to this Tenement is affected by native title claim DC98/8, Rail Corridor 8 (Federal Court No. DG6036/98) which is currently active but has not passed the registration test.
4. The land subject to this Tenement has been the subject of native title claim DN98/1, Pine Hill Station (Federal Court No. DG6041/98) which is currently discontinued.
5. The land subject to this Tenement is affected by native title claim QC99/23, Waanyi People (Federal Court No. Q6022/99) which passed the registration test on 15 September 1999.
6. The land subject to this Tenement is affected by native title claim DC01/17 Kurundi (Federal Court No. D6017/01) made on behalf of the Warumungu, Wakaya and Alyawarr Peoples which passed the registration test on 26/03/2001.
7. The land subject to this Tenement is covered by an ILUA and the Exploration Agreement between the Company and the Central Land Council, as summarised in the Agreements.
8. The land subject to this Tenement is affected by native title claim DC00/10 Singleton (Federal Court No. D6011/00) made on behalf of the Waarke/Wakurlpu, Kelantjerrang, Iliyarne and Lyentyawel Ileparranem Peoples which passed the registration test on 21/07/2000.
9. The land subject to this Tenement is affected by native title claim DC01/21 Ban Ban Springs (Federal Court No. D6021/01) made on behalf of the Warai and Angwinmil Peoples which passed the registration test on 24/05/2001.
10. The land subject to this Tenement is affected by native title claim DC01/6 Mary River West (Federal Court No. D6006/01) made on behalf of the Wagiman, Warai and Jawoyn Peoples which passed the registration test on 01/03/2001.
11. The land subject to this Tenement is affected by native title claim DC00/18 Mary River (Federal Court No. D6018/00) made on behalf of the Jawoyn People which passed the registration test on 04/01/2001.
12. The land subject to this Tenement is affected by native title claim DC99/4 Pine Hill Station (Federal Court No. D6004/99), made by the Ilkewartn Anmatyerr People which passed the registration test on 24/09/1999.
13. The land subject to this Tenement is affected by native title claim DC01/69 Sandover River (Federal Court No. D6069/01), made by the Alyawarr and Kaytetye Peoples which passed the registration test on 18/01/2002.
14. Dealing 91735 (Caveat) lodged, approved and registered 3 February 2003 by Anglo American Exploration (Australia) Pty Ltd.

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Schedule of Material Contracts

Set out below is a summary of the contracts to which the Company is a party that may be material in terms of the Offer for the operation of the business of Arafura or otherwise may be relevant to a potential investor in the Company.

The whole of the provisions of the Agreements are not repeated in this Prospectus and any intending Applicant who wishes to gain a full knowledge of the content of the Agreements should inspect the same at the Company's registered office.

1. Sale Agreement

The Sale Agreement summarised below was amended by the Supplementary Deed entered into by the parties on 22 March 2001. This summary includes the variations made pursuant to the Supplementary Deed.

On 28 October 1998 Arafura purchased and Norman Sydney McCleary, McCleary Investments and MEM (together "the Vendor") sold the Vendor's interest in Tenements EL10136, EL10004, EL8313, EL10137, MCC1500, MCC1502, EL9672, EL9725, EL9709, EL9824, EL9823, EL9701, EL9710, EL9711, EL9745, MCC1497 - 1499, MCC1501, AN389, MCC1490, MCC1491, MCC1492, MCC1493, MCC1495, MCC1489, MCC1503 ("the Tenements") and all data, plans, maps reports, drilling and assay reports, logs, geotechnical and geophysical data and drill results, samples, exploration and production reports (the "Mining Information") in relation to the Tenements.

On 8 January 2001 Arafura and the Vendors entered into the Sale Agreement to evidence the terms and conditions of the sale and purchase of Tenements and Mining Information. Completion of the sale is to take place after any approvals required under the Mining Act (NT) 1980 or the Aboriginal Land Rights (NT) Act 1976 sought by the parties are received. At the date of this report the transfer of EL9710 and EL9745 remains to be completed.

If some or all of the approvals sought, are not obtained by 31 December 2005, or such later date as the parties agree either party may terminate the agreement in respect of those Tenements for which the approval has not been obtained provided that this ability to terminate will cease to have effect after Arafura is listed on the ASX.

In relation to any Tenements which remain applications at the time of completion, until the transfer to Arafura of each of the applications has received all necessary approvals and consents and has been registered or in the event that such approvals and consents or registration are refused, the Vendor holds its interest in the Tenement applications and the Tenements when granted as bare trustee on trust for Arafura.

The purchase price of the Tenements and Mining Information is as follows:

- a) payment of \$50,000 on 28 October 1998, by the issue to Norman McCleary of 5,000,000 ordinary fully paid shares in the Company with an issue price of \$0.01 per share; and
- b) the Company agreeing to reimburse the Vendor for past expenditures incurred by the Vendor on the Tenements up to the date of completion including exploration, rent rates and other fees paid in applying for and maintaining the Tenements which sum is agreed to be \$45,000.

Arafura shall be liable for all rents, rates and other fees required to maintain the Tenements after 28 October 1998 and to the extent that it has not paid the same shall reimburse the Vendor in the manner described above.

Arafura has had access to the Tenements since 28 October 1998 for the purpose of carrying out normal exploration activities on Tenements and shall continue to have access up to completion.

Risk in the Tenements lies with Arafura who indemnifies the Vendor from and against any past, present or future rehabilitation and environmental obligations or liabilities in respect of the Tenements.

All costs associated with the Tenement applications shall be borne by Arafura.

The parties acknowledged that AN389 purported to be transferred was unable to be transferred as a right by MEM. The parties agreed to explore all available methods to have this authority or a substitute vested in Arafura including Arafura purchasing MEM for a nominal cost of \$1.00. On or about 17 July 2001 Arafura purchased all of the issued capital of MEM.

The parties agreed that the Fe Fines stockpiled on AN389, to a maximum of 300,000 tonnes remain the property of Norman McCleary. In the event of Arafura introducing a third party to explore AN389, Norman McCleary will offer at that time to sell the Fe Fines remaining at any time to the third party at a price not in excess of US\$1 per tonne.

The Vendors and Arafura both gave certain warranties in respect of the Tenements and obligations considered standard in an agreement of this kind.

2. Sale Agreement – Mt Porter

The parties to the Mount Porter Sale Agreement are Renison Limited ("Renison") as Vendor and Arafura as Purchaser. The agreement is dated 24 July 2002.

Pursuant to the agreement Renison has agreed to sell and Arafura has agreed to purchase tenement ERL116 including any other tenement or tenements which may be granted in lieu or relate to the same ground and all rights to mine and other privileges that pertain to that tenement.

The agreement and the transfer of the tenement is condi-

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tional upon obtaining any necessary consent under the Mining Act (NT) 1980. This condition has been satisfied.

The Company has agreed to pay Renison a royalty of 2.5% of the gross value of all gold mined and recovered from the tenement to a maximum of 12,000 ounces. The royalty may be paid in either cash or physical gold at the discretion of the Company.

Pursuant to the agreement Renison was permitted to lodge a caveat against the tenement together with a copy of the agreement.

Arafura is not permitted to assign any legal or beneficial interest in the tenement to any person without first obtaining from that person a deed of covenant in favour of Renison where by the assignee agrees to assume and discharge all of Arafura's obligations under the agreement.

In addition Arafura has agreed not to relinquish all or part of the tenement without first offering it to Renison.

Arafura agreed to do all acts necessary to maintain the tenement. In the event Arafura defaults on its obligations and such default continues for a period of fourteen (14) days after receiving notice from Renison, Renison is entitled to rescind the agreement and retake possession of the tenement.

Renison has provided warranties which are considered standard for an agreement of this type.

3. Letter of Intention – Anglo American Exploration (Australia) Pty Ltd

A letter of intention dated 13 September 2002 has been executed between Anglo American Exploration (Australia) Pty Ltd ("Anglo American") and Arafura (the "Letter"). Pursuant to the letter Anglo American or its nominee and Arafura agreed to form a joint venture in respect of tenement EL9824.

The terms of the agreement were subject to obtaining ministerial approval and registration of the letter pursuant to the Mining Act (NT) 1980. On 2 October 2002 the condition precedent was satisfied.

Pursuant to the Letter Anglo American, is granted the exclusive right to earn a 75% interest in the tenement by spending \$1.25 M on exploration on the tenement over a period of five (5) years calculated from 2 October 2002 ("Expenditure").

Anglo American has committed to spending a minimum of \$60,000 on ground exploration work on the tenement within twelve (12) months from 2 October 2002. Anglo American will ensure that sufficient monies are spent so as to satisfy the first years expenditure covenant of the tenement. In addition as part of such minimum expenditure, Anglo American has agreed to reimburse Arafura the amount of \$1,617 being the rental for the first year of the tenement ("Minimum Commitment").

After Anglo American has satisfied the Minimum

Commitment and if it elects not to withdraw from the agreement, the parties will negotiate and execute a formal joint venture agreement. Until such time as the formal agreement has been signed the terms of the Letter are binding on the parties.

It is acknowledged that Anglo American had spent A\$5,000 on reconnaissance work on the tenement prior to 13 September 2002 and this is to be credited to its expenditure commitments. In the event that Anglo American only expends \$750,000 on exploration over the five (5) year period, unless the failure to incur the Expenditure was a result of a lack of ability to access the tenement, any shortfall in the Expenditure requirement may be satisfied by Anglo American making a cash payment to Arafura.

Anglo American, is entitled at its discretion to withdraw from the joint venture at anytime following the completion of the Minimum Commitment. In the event that Anglo American elects to withdraw after completion of the Minimum Commitment but prior to earning an interest in the tenement, then the agreement will be terminated and Anglo American will deliver to Arafura all data and information relating to the tenement owned or obtained by Anglo American pursuant to the terms of the Letter.

Should Anglo American elect, at its discretion, to cease expenditure on the tenement at any time after having vested its interest of 75% in the tenement, then there will be no further obligation on Anglo American to proceed with further funding or work and the joint venture will decide the conduct of any future activities on the Tenement.

The Letter contains a sixty (60) day pre-emptive right in favour of each party over the other party's interest in the agreement or tenement.

Anglo American has lodged a caveat to protect its interest in the tenement from the date of the letter.

4. Executive Service Agreement – Irvin Graham Muir

Under the agreement entered into with the Company, Mr Muir is engaged as Managing Director of the Board of the Company for a period of two years from 10 July 2003.

Mr Muir is to be remunerated \$120,000 per annum exclusive of the payment of the statutory minimum superannuation but inclusive of all other entitlements. Mr Muir's remuneration is to be reviewed on a date set by the parties being not less than thirty (30) days before the end of the term and thereafter on an annual basis.

Mr Muir is entitled to have refunded to him all out of pocket expenses reasonably and properly incurred by him in the performance of his duties under this contract.

During the term of the contract, Mr Muir is restrained from soliciting customers away from the Company either on his own account or in collaboration with any other per-



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son, firm or corporation.

The Company may terminate the employment contract on a date determined by the Company by notice if Mr Muir:

- a) commits a serious or persistent breach of the provisions of the contract and fails to remedy that breach within seven (7) days; or
- b) dies or becomes of unsound mind; or
- c) is, in the opinion of the Board guilty of any grave misconduct or wilful neglect in the discharge of his duties under the contract; or
- d) is, in the opinion of the Board guilty of any grave misconduct or wilful neglect in the discharge of his duties under the contract; or
- e) becomes bankrupt or commits any act of bankruptcy or enters into a deed of assignment, deed of arrangement or composition with his creditors; or
- f) is convicted of an indictable offence; or
- g) if Mr Muir is unable by reason of accident, illness or other incapacity to perform his duties under the contract and has been unable to do so for a total period of four consecutive months or for a period aggregating four months during the term of the contract.

Mr Muir may terminate the agreement at any time by giving one (1) month's written notice to the Company. In addition Mr Muir may terminate the agreement by giving seven (7) days written notice to the Company in the event that the Company breaches any of its obligations under the agreement or if Mr Muir ceases to be a director as a result of:

- a) a change in the ownership or control of the Company;
- b) a vote or resolution of the Board of directors; and
- c) a spill motion or resolution presented by any shareholder of the Company.

In the event that the engagement of Mr Muir is terminated as a result of the Company's breach in the circumstances mentioned in the above paragraph, Mr Muir shall be entitled to be paid by the Company the sum equal to the balance of the annual salary owing within fourteen (14) days of termination of the contract.

5. Exploration Agreement – Central Land Council

This exploration agreement has been negotiated between the Company and the CLC, representing a group of aboriginal persons who possess rights and interests in land and the Company. The exploration agreement has been accepted by the CLC but is awaiting final execution by the CLC.

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 the Company 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 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.

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

6. Indigenous Land Use Agreement – Central Land Council

This agreement relates to the Exploration Tenure as referred to in the summary of the Exploration Agreement above.

The ILUA ("the ILUA") shall be for the latter of the period of six (6) years from the date of registration or the date upon which all of the Exploration Tenure expires whether by time, surrender, revocation or cancellation provided that the Company is entitled to exercise any right to renew or further renew or apply for any additional or substitute Exploration Tenure for any existing tenements as provided in the exploration agreement.

Pursuant to this agreement the parties agreed that all matters regarding the Exploration Tenure including all exploration carried out is covered by the ILUA. This includes such matters as the granting of the Exploration Tenure, the ongoing exploration, the procedures to minimise the environmental impact, promotion of rehabilitation, protection

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of native title rights and interests and other rights and interests in relation to the area of the ILUA, the manner of exercise of the native title rights and interests in relation to the area and compensation for future acts.

The parties have agreed that the terms and conditions contained in the Exploration Agreement referred to in 6 above are to apply to the activities of the Company on the Exploration Tenure and that the parties will be bound by those conditions.

7. Corporate Advisory Services – Dalkeith Resources Pty Ltd and Concept Equity Pty Ltd

The parties to the agreement are Dalkeith Resources Pty Ltd (“Dalkeith”) and Concept Equity Pty Ltd (“Concept”) and the Company. The letter of engagement was signed by the parties on 13 August 2002.

Pursuant to the agreement Dalkeith and Concept jointly agree to provide corporate advisory and other services to the Company associated with its proposed initial public offering. The services include managing the capital raising, providing assistance in relation to a pre float placement, assisting in the preparation of the prospectus, assisting in the negotiation of any underwriting agreements and generally provide assistance to the Company in the marketing of the offer including broker presentations.

Dalkeith retains the right to underwrite the issue either in part or in total, usual commercial and competitive terms. In the event that this occurs Dalkeith will not be acting for the Company.

The Company has agreed to appoint Dalkeith and Concept exclusively from the date of their appointment until completion of the issue, or the issue is cancelled or six months from the date of the letter. This exclusivity does not prevent the Company from introducing sub-underwriters or investors to the Company's public offering however it does restrict the Company from using the services of another stockbroker or competitor of Dalkeith or Concept for the provision of corporate advisory services.

In addition, Arafura has granted Dalkeith an exclusive mandate for the provision of corporate advisory services for a period of 12 months from the date of the Company's listing on the Australian Stock Exchange.

Dalkeith and Concept shall receive the following fees, exclusive of GST for the provision of their services:

- a) seed capital raising fee of 10% of any capital raised;
- b) corporate advisory fee of \$100,000.00 ;
- c) capital raising fees payable on completion of the issue of:
 - (i) a management fee of \$50,000.00, plus a placement fee of 5% of any capital directly placed by either Dalkeith or Concept to investors in the event of an underwriting agreement has not been entered into; or

- (ii) any fees required by an underwriter to the issue out of which sub underwriting fees are payable; or
- (iii) a fee of 5% of the amount underwritten by Dalkeith out of which any sub underwriting fees are secured by Dalkeith are payable;
- d) of all reasonable out of pocket expenses previously agreed between the parties;
- e) 1,000,000 options with the same terms, rights and conditions as the new options to be issued to the public, to be granted to Dalkeith on signing of the letter. Such options have been granted; and
- f) 1,000,000 options with the same terms, rights and conditions as the new options to be issued to the public, to be granted to Concept on signing of the letter. Such options have been granted.

The Company has agreed to provide indemnities in favour of Dalkeith and Concept that are considered standard in agreements of this type.

It should be noted that Marcus Rose, a director of the Company, is also a director of Concept.

8. Service Agreement – Exploremine Pty Ltd and John and Marilyn Goulevitch

The service agreement is dated 16 April 2003 and is between the Company and Exploremine Pty Ltd (“Exploremine”) and John and Marilyn Goulevitch as the directors of Exploremine. Exploremine has been engaged, to commence on a date agreed between the parties, but no later than the date on which the Company list on the Australian Stock Exchange, to provide a variety of geotechnical services associated with the mining and exploration activities of the Company with John Goulevitch performing a role equivalent to Exploration Manager. The term shall be a period of 2 years from the date of commencement. The parties agree that six months prior to the expiration of the agreement they will meet and negotiate in good faith an extension of the agreement for a further period of 2 years.

Exploremine agrees to provide the services of John Goulevitch during the term for a minimum of 350 hours in each 3 month period.

In consideration for provisions of services the Company has agreed to pay the following rates:

- a) for the provision of the services of Mr Goulevitch:
 - (i) during the first year of the term, a base rate of \$10,700.00 per month (“First Year Base Rate”);
 - (ii) during the second year of the term a base rate of \$11,200.00 per month (“Second Year Base Rate”);
- b) in the event that John Goulevitch provides services in excess of 380 hours in a 3 month period during the term, an additional quarterly remuneration will be due based on Exploremine standard schedule of fees;

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c) in the event any additional services are provided, excluding those provided by John Goulevitch, Exploremine will be entitled to charge for the services in accordance with its standard schedule of fees.

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

In respect of any industrial property rights arising from work done by the contractor in the scope of its engagement and to which the contractor is entitled, at the request of the Company the contractor shall grant a royalty free licence over industrial property rights to enable the Company to use them.

The Company may terminate the agreement upon the occurrence of certain events which are considered standard in agreements of this nature. In addition the Company may terminate the agreement at any time by giving not less than one (1) month's prior written notice to Exploremine. In the event that the Company terminates the agreement in this manner, the Company is liable to pay compensation to the contractor at the following rates:

- a) if the Company terminates the agreement in the first year of the term, the Company is required to pay Exploremine 70% of the sum of the remaining base rate for the term;
- b) if the company gives notice in the second year of the term the Company shall pay Exploremine:
 - (i) the greater of 85% of the sum remaining on the base rates of the term; or
 - (ii) the equivalent of six months at the Second Year Base Rate for the term together with any options that may have been previously agreed to be given to the contractor.

Exploremine may terminate the agreement by giving not less than one (1) month's prior written notice to the Company. Exploremine will not be liable to pay any compensation or damages to the Company in respect of such termination but shall forfeit its right to any options that may have been previously agreed to be given to Exploremine.

9. Sponsoring Broker Agreement – Baker Young Stockbrokers Limited

The parties to the agreement are the Company and Baker Young Stockbrokers Limited ("Baker Young"). The agreement was signed by the parties on the 21 August 2003.

Pursuant to this agreement Baker Young has agreed to act as sponsoring broker to the IPO and commit their marketing expertise to facilitate the success of the offer. In consideration for their services Baker Young shall be entitled to be reimbursed their marketing expenses and paid a marketing fee of \$15,000 provided Arafura has clear access to funds raised under the IPO. Further Baker Young shall be paid a sponsoring broker's fee of \$35,000 if the minimum

subscription level is reached and cleared funds received by Arafura.

In conjunction with the managers (who are Dalkeith Resources Pty Ltd and Concept Equity Pty Ltd) Baker Young undertake to utilise their resources to provide a coordinated marketing and public awareness campaign to generate investor interest in the IPO.

Baker Young has agreed to allow its name and contact details to appear on the Company's prospectus.

The Company has given a number of warranties to Baker Young including a warranty not to dispose of the whole or a substantial part of their business without Baker Young's consent until all fees owing under the agreement are paid. All other warranties given by the company are considered standard for an agreement of this type. The Company has also agreed to indemnify Baker Young, its officers and employees from liability or damage arising from amongst other things, misleading or deceptive statements being contained in the prospectus, an announcement or advertising by the Company and a warranty by the Company being incorrect. Baker Young has agreed to indemnify the Company its officers and employees from liability or damage arising from amongst other things any marketing statement, advertising or publicity made by Baker Young that is not supported by the prospectus.

The term of the agreement shall be from the date of execution until the Company has paid all monies owing to Baker Young.

Baker Young shall otherwise be entitled to terminate the agreement if one of the follow circumstances arises:

- The Company breaches the agreement;
- There is a materially adverse change in the financial position or prospects of the Company;
- The Company withdraws its prospectus;
- The All Ordinaries Index of the ASX falls below 2,800;
- The Dow Jones Industrial Index falls below 8,000;
- There is an outbreak of hostility involving any one of Australia, UK, USA, Russia, China or Japan; and
- A liquidator, Receiver or Administrator is appointed in relation to the Company or its assets.

The Company shall be entitled to terminate the agreement immediately should Baker Young breach any provision of the agreement or there is a material adverse change in the financial position or prospects of Baker Young.

The agreement otherwise contains terms that are considered standard with the exception that agreement shall be governed by the law of South Australia.

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10.1 Rights Attaching to Shares

The following is a summary (but not an exhaustive statement) of the rights attaching to the Company's Shares:

General Meetings

Shareholders are entitled to receive notice of, and to attend, speak and vote at, general meetings of the Company and to receive all notices, accounts and other documents required to be given to shareholders under the Company's Constitution, the Corporations Act or ASX Listing Rules.

Voting Rights

Subject to the rights of holders of shares issued with any special rights (at present there are none), at a general meeting, on a show of hands each Shareholder has one vote and on a poll each Shareholder has one vote for each fully paid Share they hold.

Dividends

Subject to the rights of shareholders of shares issued with any special rights (at present there are none), the Directors may from time to time declare a dividend to be payable on all Shares in accordance with, but subject to, the provisions of section 254W of the Corporations Act.

Rights on Winding Up

Subject to the rights of shareholders of shares issued with any special rights (at present there are none), all monies and property that are to be distributed among shareholders on a winding up shall be so distributed in proportion to the number of shares held by them respectively, irrespective of the amount paid up or credited as paid up on the shares.

Issue of Securities

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares (at present there are none), shares for the time being unissued shall be under the control of the Directors and subject to the Corporations Act, ASX Listing Rules and the Constitution, the Directors may issue shares and grant options over shares at any time and on such terms and conditions as they think fit.

Transfer of Shares

Subject to the Constitution, a shareholder may transfer all or any of the their shares by:

- A market transfer in accordance with any computerized or electronic system established or recognised by the ASX Listing Rules or the Corporations Act for the purpose of facilitating dealings in shares, including a transfer that may be effected pursuant to the SCH Business Rules or some other computerized or electronic transfer process; and
- An instrument which is:
 - (a) In writing in any usual or common form or in any

other form that the Directors approve;

- (b) A sufficient instrument or transfer or marketable securities under the Corporations Act;
- (c) In a form approved by ASX; or
- (d) In any other usual or common form.

The Directors may decline to register any transfer of Shares (other than a market transfer) where:

- The ASX Listing Rules or SCH Business Rules permit the Company to do so;
- The ASX Listing Rules or SCH Business Rules require the Company to do so.

10.2 Constitution - ASX Listing Rules

If the Company is admitted to the Official List of ASX, the following applies:

- Notwithstanding anything contained in the Constitution, if ASX Listing Rules prohibit an act being done, the act shall not be done;
- Nothing contained in the Constitution prevents an act being done that ASX Listing Rules require to be done;
- If ASX Listing Rules require an act to be done or not to be done, authority is given for that act to be done or not to be done (as the case may be);
- If ASX Listing Rules require the Constitution to contain a provision and it does not contain such a provision, the Constitution is deemed to contain that provision;
- If ASX Listing Rules require the Constitution not to contain a provision and it contains such a provision, the Constitution is deemed not to contain that provision;
- if any provision of the Constitution is or becomes inconsistent with ASX Listing Rules, the Constitution is deemed not to contain that provision to the extent of the inconsistency;
- in the Constitution a reference to ASX Listing Rules is to have effect, if, and only if, at the relevant time, the Company has been admitted to and remains on the Official List of ASX and is otherwise to be disregarded.

10.3 Terms and Conditions of Options

10.3.1 Director, Promoter, Vendor Options and Options issued for Services

The Director, Promoter, Vendor Options and Options issued for Services will entitle the holders to subscribe for shares on the following terms:

- (i) The exercise price of each option is 20 cents;
- (ii) They are exercisable by 30 June 2008;
- (iii) Shares issued as a result of the exercise of any of these options will rank equally in all respects with previously issued shares;
- (iv) The options are exercisable by completing the appli-

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cation 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;

- (v) Subject to ASX Listing Rules the options are freely transferable in whole or part at any time prior to expiry;
- (vi) Should the Company's shares become quoted on ASX the Company will apply for Official Quotation of all shares issued and allotted pursuant to the exercise of the options;
- (vii) Within 14 days of the receipt of a properly executed notice of exercise and application monies the Company will issue to the option holder the number of shares specified in that notice;
- (viii) Option holders are permitted to participate in new issues of securities offered to shareholders on the prior exercise of the option in which case the option holder 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;
- (ix) In the event of any reorganisation (including consolidation, subdivision, reduction or cancellation) of capital of the Company, the rights of option holders are to be changed to the extent necessary to comply with ASX Listing Rules on a reorganisation of capital at the time of the reorganisation.
- (x) Application will not be made to ASX at this time for Official Quotation of these options.

10.3.2 Seed Capital Options

The Seed Capital Options will entitle the holders to subscribe for shares under the same terms and conditions as the Director, Promoter, Vendor Options and Options issued for Services except that application will be made to ASX for Official Quotation of these options.

10.3.3 Attaching Options

The Attaching Options will entitle the holders to subscribe for shares under the same terms and conditions as the Seed Capital Options.

10.4 Directors' and Expert's Interests

Other than as set out in paragraphs (1) to (7) below or elsewhere in this Prospectus, no director or expert, and no firm in which any such person is a partner, has as at the date that this Prospectus is lodged with ASIC, or had within two years before that date, an interest in the promotion of the Company, or in any property proposed to be acquired by the Company in connection with its formation or promotion, and no amounts have been paid or agreed to be paid (in cash or shares or otherwise):

- (a) In case of a director, either to induce him to become, or to qualify him as, a director or otherwise for services rendered by him or by any firm in which he is a partner in connection with the promotion or formation of the Company; or
 - (b) In the case of an expert, for services rendered by him or by any firm in which he is a partner in connection with the promotion or formation of the Company.
- 1 Andrew Drummond & Associates Pty Ltd will be paid a fee of approximately \$86,000 for the provision of the Independent Consulting Geologist's Report contained in Section 6.
 - 2 Horwath Securities (WA) Pty Ltd will be paid a fee of approximately \$7,500 for the preparation and provision of the Investigating Accountants' Report contained in Section 8.
 - 3 Price Sierakowski will be paid a fee of approximately \$70,000 for the provision of the Solicitors' Report and for work performed in relation to the due diligence process and lodgement of this Prospectus.
 - 4 Industrial Minerals Company of Australia Pty Ltd will be paid a fee of approximately \$8,000 for the provision of the Rare Earths Market Overview Report contained in Section 7.
 - 5 Baker Young Stockbrokers Limited shall be entitled to be reimbursed their marketing expenses and paid a marketing fee of \$15,000 provided Arafura has clear access to funds raised under the IPO. Further Baker Young shall be paid a sponsoring broker's fee of \$35,000 if the minimum subscription level is reached and cleared funds received by Arafura.
 - 6 Directors' Interests in Shares and Options as at the date of this Prospectus:

	No. of Shares		No of Options	
	Direct	Indirect	Direct	Indirect
Peter Walker	-	1,510,000	-	3,200,000
Irvin Muir	3,000,001	-	1,500,000	-
Marcus Rose	-	-	-	1,600,000
Ian Kowalick	-	-	-	800,000

- 7 Non-Executive Directors' fees not exceeding \$150,000 per annum in aggregate have been approved by the Company in general meeting. The level of these fees may be varied by the Company in general meeting in accordance with the Constitution. Non-Executive Directors may also be remunerated for additional specialised services performed at the request of the Board. The remuneration of Executive Directors will be determined by the Board. Reasonable expenses incurred by all Directors on Company business are reimbursable.

Section 10 ▲ Additional Information

- 8 Marcus Rose is a director of Concept Equity Pty Ltd who together with Dalkeith Resources Pty Ltd may receive fees of up to \$150,000. Concept Equity Pty Ltd and Marcus Rose have each been issued with 800,000 Options.

10.5 Consents and Liability of Persons Named in this Prospectus

The following parties have given their written consents to the issue of this Prospectus with their reports or references to them included in the form and context in which they are included and have not withdrawn those consents before the lodgement of this Prospectus with the ASIC.

Andrew Drummond & Associates Pty Ltd have only been involved in the preparation of the Independent Consulting Geologist's Report in Section 6. They have not authorised or caused the issue of any other part of this Prospectus (other than references to and comments regarding that report elsewhere in this Prospectus). They have consented in writing to the inclusion of their report and those references and comments in the form and context in which they appear.

Horwath Securities (WA) Pty Ltd has only been involved in the preparation of the Independent Accountants' Report in Section 8. They have not authorised or caused the issue of any other part of this Prospectus (other than references to and comments regarding that report elsewhere in this Prospectus). They have consented in writing to the inclusion of their report and those references and comments in the form and context in which they appear.

Price Sierakowski have only been involved in the preparation of the Solicitors' Report set out in Section 9. They have not authorised or caused the issue of any other part of this Prospectus (other than references to and comments regarding that report elsewhere in this Prospectus). They have consented in writing to the inclusion of their report and those references and comments in the form and context in which they appear.

Industrial Minerals Company of Australia Pty Ltd has only been involved in the preparation of the Rare Earths Market Overview Report set out in Section 7. Industrial Minerals Company of Australia Pty Ltd has not authorised or caused the issue of any other part of this Prospectus (other than references to and comments regarding that report elsewhere in this Prospectus). Industrial Minerals Company of Australia Pty Ltd has consented in writing to the inclusion of its report and those references and comments in the form and context in which they appear.

10.6 Expenses of the Offer

The total expenses of the Offer are approximately:

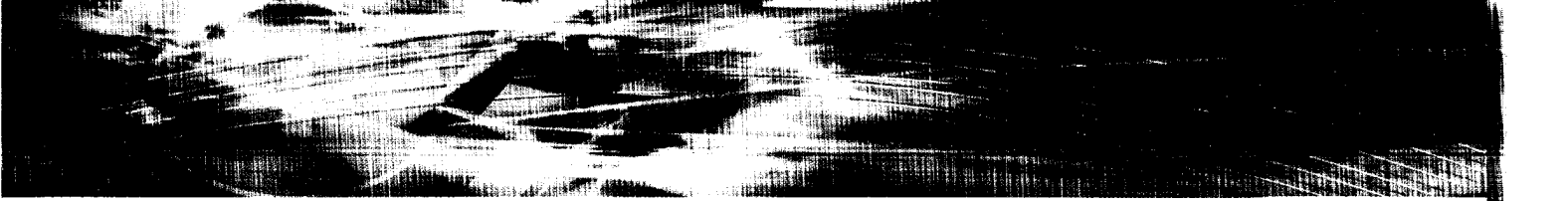
Independent Consulting Geologist	\$86,000
Rare Earths Market Overview	\$8,000
Legal Fees	\$70,000
Investigating Accountants' Report	\$7,500
Listing, lodgment and other fees	\$30,000
Prospectus Printing and Postage	\$60,000
Corporate Advisory Services	\$100,000
Management and Broking Fees	\$225,000
Total	\$586,500

10.7 Litigation

As at the date of this Prospectus the Company is not engaged in any material litigation and so far as the Directors are aware, no such litigation involving Arafura is threatened.

10.8 Corporate Governance

The Company supports the framework of the guidelines proposed by the ASX Corporate Governance Council and is assessing the application of these guidelines to small resource companies such as Arafura. At this time the Company is substantially compliant with these guidelines but in some areas, particularly in the composition of the board, it does not meet all the conditions. It will monitor the development of a good governance environment in our industry and will adopt a regime which will substantially comply with the guidelines while particularly recognizing those governance issues which most substantially impact on resource companies.



Directors' Statement

The Directors of the Company, accept responsibility for the information contained in this Prospectus and, after having made such enquiries as are reasonable, state that:

- (a) other than elsewhere disclosed in this Prospectus, they are not aware of any such circumstances that have arisen since 30 June 2003 (being the date to which the accounts included in this Prospectus have been made up) which, in their opinion, have materially affected, or will materially affect the profitability, financial position, profits or losses, prospects or the assets and liabilities of the Company; and
- (b) they have reasonable grounds to believe, and do believe, that the Prospectus contains no statement which is false or misleading and that there are no material omissions from this Prospectus

Each Director has consented in writing to the lodgment of the Prospectus with ASIC and has not withdrawn that consent.

Signed for and on behalf of Arafura Resources NL on the 25 August 2003.



PETER N WALKER
CHAIRMAN

Glossary of Terms

In this Prospectus the following terms and abbreviations have the following meanings, unless otherwise stated or unless the context otherwise requires:

"Applicant"	means a person who submits an Application.
"Application"	means a valid application to subscribe for Shares.
"Application Form"	means the application form that is attached to and forming part of this Prospectus in relation to subscription for shares issued pursuant to this Prospectus.
"Application Monies"	means the issue price per Share multiplied by the number of Shares applied for.
"ASIC"	means the Australian Securities and Investments Commission.
"ASX"	means the Australian Stock Exchange Limited. (ACN 008 624 691)
"Attaching Options"	means options to subscribe for fully paid ordinary share in the Company on the terms set out in Section 10.3.3, to be issued to investors, pursuant to this Offer.
"Board"	means the Directors acting as a board from time to time.
"Business Day"	has the meaning ascribed to it in the Listing Rules.
"Chairman"	means the Chairman of the Board.
"CHESS"	means Clearing House Electronic Sub-register System.
"CHESS Approved Securities"	means the securities of the Company which are approved by SCH in accordance with the business rules made by SCH.
"Closing Date"	means the latest date by which Applications must be received, being 15 October 2003 (subject to the right of the Directors to close the Offer earlier or to extend this date without notice).
"Company" or "Arafura"	means Arafura Resources NL. (ACN 080 933 455).
"Constitution"	means the constitution of the Company.
"Corporations Act"	means the Corporations Act 2001 (Cth).
"Corporations Law"	has the meaning given to it by Part 3 of the Corporations Act (Western Australia) 1990 and references in the Corporations Law has the effect given to them by Section 13 of that Act.
"Director"	means a Director of the Company.
"Director Options"	means options to subscribe for fully paid shares in the Company on the terms set out in Section 10.3.1, issued to Directors of the Company.
"Exercise Price"	means the cost of converting an option to a fully paid share.
"Expiry Date"	means the date at which an option is no longer valid.
"Exposure Period"	means the period of seven (7) days after lodgment of this Prospectus with the ASIC which period may be extended by the ASIC for a further seven (7) days to a maximum exposure period of fourteen (14) days.

Glossary of Terms

"HIN"	means Holder Identification Number.
"Issued Sponsored"	means securities issued by an issuer that are held in uncertificated form without the holder entering into a sponsorship agreement with a broker or without the holder being admitted as an institutional participant in CHESS.
"Listing Rules"	means the official listing rules of ASX
"Offer" or "Issue"	means the offer of Shares and Options under this Prospectus.
"Official List"	means the Official List of ASX.
"Official Quotation"	means quotation on the Official List of ASX.
"Option"	means Directors Options, Promoter Options, Seed Capital Options, Vendor Options or Attaching Options as appropriate.
"Prospectus"	means this prospectus which is dated 25 August 2003.
"Restriction Agreement"	means a restriction agreement within the meaning and for the purposes of the Listing Rules.
"SCH"	means ASX settlement and Transfer Corporation Pty Ltd.
"SCH Business Rules"	means the SCH Business Rules issued by ASX Settlement and Transfer Corporation Pty Ltd (ACN 008 504 532).
"Service Agreement"	means an agreement for the provision of services between the company and an employee.
"Shareholders"	means holder of shares in the capital of Arafura Resources NL.
"Shares"	means fully paid ordinary shares in the capital of the Company.
"SRN"	means security holding reference number.
"Subsidiaries"	means the same as that term is defined under Section 9 of the Corporations Act.
"Tenement"	means an Exploration Licence ("EL"), Application for Exploration Licence ("ELA") or any other form of mineral licence or title held or applied for by the Company or in which the Company has an interest.
"Vendor Options"	means options to subscribe for fully paid shares in the Company on the terms set out in Section 10.3.1, issued in consideration for the sale of properties.
"WST"	means Western standard time.
"\$"	means Australian dollars unless otherwise stated.

Terms defined in the Independent Geologist's Report and used elsewhere in this Prospectus, unless the context requires otherwise, have the meanings ascribed to them in the Independent Geologist's Report.

References in this Prospectus to Sections are to Sections of this Prospectus.

Words incorporating the singular or plural include the plural and singular respectively.

Application Form

For the offer of Shares at an issue price of \$0.20 per Share plus one (1) free Attaching Option for every two (2) shares issued pursuant to this Prospectus. Instructions A to H are set out on the reverse side of this form.

Application Forms must be accompanied by payment of \$0.20 per Share.

Please use block letters – refer to the guide (reverse side) for correct forms of registrable title(s).

BROKER'S REFERENCE
STAMP ONLY

ASX CODE

ADVISER NO

A APPLICATION FOR SHARES

I/We apply for Shares at \$0.20 per Share

I/We lodge in full the application monies of A\$

B Title Given Names or Company Name Surname/ACN/ABN

C Title Joint Applicants or Designated Account e.g <SUPER FUND A/c>

D FULL ADDRESS

SUBURB/CITY/TOWN

STATE

POSTCODE

E CONTACT NAME

Tel (Hm)

Tel: (Wk)

Fax:

Email:

F CHESS DETAILS

G TAX FILE NUMBER OR EXEMPTION

HIN

H PAYMENT DETAILS

All cheques should be made payable to "ARAFURA RESOURCES NL SHARE OFFER ACCOUNT" and crossed "not negotiable"

DRAWER	BANK	BRANCH	AMOUNT OF CHEQUE A\$
DRAWER	BANK	BRANCH	AMOUNT OF CHEQUE A\$

I DECLARATION

This Application Form does not need to be signed. By lodging this Application Form and a cheque for the application money, I/We

- (1) agree to obey bound by the terms and conditions set out in this Prospectus and by the Constitution of Arafura;
- (2) authorizes the Directors to complete or amend this Application Form where necessary to correct any errors or omissions;
- (3) have received personally a copy of the Prospectus accompanied by or attached to this Application Form or a copy of the Application Form or a direct derivative of the Application Form, before applying for Shares; and
- (4) authorize Arafura to complete and execute any documentation necessary to effect the issue of Shares to me/us.

TO MEET THE REQUIREMENTS OF THE CORPORATIONS ACT, THIS FORM MUST NOT BE HANDED TO ANY PERSON UNLESS IT IS ATTACHED TO OR ACCOMPANIED BY THE PROSPECTUS DATED 25 AUGUST 2003 AND ANY RELEVANT SUPPLEMENTARY PROSPECTUS.

Instructions to Applicants

A Application for Shares

To calculate application money due, multiply the number of Shares that have been applied for by \$0.20. Applications must be for a minimum of 10,000 Shares and in multiples of 1,000 Shares thereafter. Please forward the completed Application Form and cheque to:

Security Transfer Registrars Pty Ltd

770 Canning Highway

Applecross WA 6153

Application must be received by the Closing Date.

B Name of Applicant

Write the Applicants FULL NAME in Box B. This must be either an individuals name or the name of a company. If a company, please also include its ACN/ABN. Please refer to the bottom of this page for the correct form of registrable title. Applicants using the incorrect form of name may be rejected.

If the Application Form is not completed correctly, or if the accompanying payment is for the wrong amount, it may still be accepted. Any decision of the Directors as to whether to accept an Application Form, and how to construe, amend or complete it, shall be final. An Application Form will not however, be treated as having offered to subscribe for more Shares than is indicated by the amount of the accompanying cheque for the application monies referred to in Box A.

C Joint Applicants and/or Account Designations

If JOINT APPLICANTS are applying or an ACCOUNT DESIGNATION is required, complete Boxes B and C. Please refer to the bottom of this page for instructions on the correct form of registrable title. Up to three joint Applicants may register.

D Address

Enter the Applicant's postal address for all correspondence. If the postal address is not within Australia, please specify Country after City/Town.

E Contact Name

Please provide a contact name and day time telephone number so that the Company can contact the Applicant if there is an irregularity regarding the Application Form

F CHESSE Details

If you are sponsored in CHESSE by a stockbroker or other CHESSE Participant enter your Holder Identification Number (HIN).

G Tax File Number

An Applicant is not obliged to quote his or her Tax File Number (TFN). However, in cases where no TFN is quoted, the Company must deduct tax from any dividends payable (to the extent that they are not franked) at the top personal margin tax rate plus the Medicare Levy.

H Payment Details

Payment must be made in Australian currency by cheque or bank cheque drawn on an Australian bank. The amount of the cheque should agree with the amount shown in Box A of the Application Form. Cheques are to be made payable to "Arafura Resources NL Share Offer Account" and should be crossed "Not Negotiable". Cash should not be forwarded. Similarly payment made direct to the Company's bank account may not be accepted.

I Declaration

By completing the Application Form, the Applicant will be taken to have made to the Company the declarations and statements therein. The Application Form does not need to be signed.

CORRECT FORMS OF REGISTRABLE TITLE

Note that ONLY legal entities are allowed to hold securities. Application Forms must be in the name(s) of a natural person(s), companies or other legal entities acceptable to the Company. At least one full given name and the surname is required for each natural person. Application Forms cannot be completed by persons under 18 years of age. Examples of the correct form of registrable title are set out below.

Type of Investor	Correct Form of Registrable Title	Incorrect Form of Registrable Title
Trusts	Mr John David Smith (John David Smith Account)	John Smith Family Trust
Deceased Estates	Mr Michael Peter Smith (Est Michael Peter Smith Account)	John Smith (Deceased)
Partnerships	Mr John David Smith and Mr Michael Peter Smith	John Smith & Son
Clubs/Unincorporated Bodies	Mr John David Smith (ABC Tennis Association Account)	Smith Investment Club or ABC Tennis Assoc
Superannuation Funds	John Smith Pty Ltd (Super Fund Account)	John Smith Superannuation Fund

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ADVISER NO

B Title Given Names or Company Name Surname/ACN/ABN

C Title Joint Applicants or Designated Account e.g <SUPER FUND A/c>

D FULL ADDRESS

SUBURB/CITY/TOWN	STATE	POSTCODE
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E CONTACT NAME

Tel (Hm)	Tel: (Wk)	Fax:	Email:
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F CHESS DETAILS

G TAX FILE NUMBER OR EXEMPTION

HIN	
-----	----------------------

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DRAWER	BANK	BRANCH	AMOUNT OF CHEQUE A\$
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Clubs/Unincorporated Bodies	Mr John David Smith (ABC Tennis Association Account)	Smith Investment Club or ABC Tennis Assoc
Superannuation Funds	John Smith Pty Ltd (Super Fund Account)	John Smith Superannuation Fund





ARAFURA
RESOURCES LTD