ARAFURA
RESOURCES LIMITED

ABN 22 080 933 455

15 January 2010
Ms Jenny Cutri
Assistant Manager, Issuers
Australian Securities Exchange
Level 8, Exchange Plaza
2 The Esplanade
Perth WA 6000

RE: Response to ASX Price & Volume Query

Dear Jenny,

In recent months there has become a global awareness of the strategic importance of rare earths in energy efficient technologies. Global leader's recently met in Copenhagen to discuss climate change and greenhouse gas abatement strategies and rare earths are the key to a number of the solutions. On December 26th 2009, the front page of the New York Times reported the global shortage of supply of rare earth elements and the United States' dependence on China for supply. The United States Congress has recently drafted legislation requesting US$1.25 billion be appropriated for the Rare Earth Supply Change Technology and Resources Transformation (RESTART) Act of 2009. This act seeks to re-establish the United States Rare Earths industry and alleviate its dependence on China. In addition, since September 2009 European governments have implemented schemes to replace all incandescent light bulbs with energy efficient (rare earth) light globes as part of their energy consumption reduction packages.

This further highlights the strategic importance of Rare Earths which lie at the core of modern technologies such as energy efficient lighting, hybrid vehicle manufacture, magnets for wind turbines and plasma panels.

China currently produces approximately 95% of Rare Earths and consumes about 60% of global production. Export of critical Rare Earth materials from China is subject to a tariff and quota system which has progressively restricted world supply over the past few years. It is expected this trend will continue.

Arafura represents one of the few commercially viable Australian and Global sources of Rare Earths which can commence production in the next few years.

Arafura aims to be a strategic supplier of rare earth resources through its world class Nolan's deposit located in the Northern Territory of Australia.

On January 11th 2010 Arafura, submitted a presentation to the ASX as part of an investor update which highlights Arafura's global importance to the rare earth supply / demand imbalance and potential value of the business. This presentation can also be found on the company's website at www.arafuraresources.com.au .

Also in January, Arafura was pleased to announce the appointment of Dr. Stephen Ward as Managing Director and Chief Executive Officer. He has a chemical background and has worked extensively in the chemical and resources industry. His experience includes bringing

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projects from development phase into full production. This appointment is ideal for the company's needs at this stage of its development from explorer to operator.

Further to your letter today and our subsequent telephone conversation we respond as follows:

1. The Company is not aware of any information that has not been announced which could be an explanation for recent trading in the securities of the Company.
2. The answer to question 1 is "No", therefore question 2 is "Not Applicable"
3. Other than stated above, the Company does not have any other explanation for the price change and volume increase.
4. The Company confirms that it is in compliance with the Listing Rules and in particular Listing Rule 3.1

Should you require further information, please contact me.

Yours sincerely

Gavin Lockyer
Company Secretary
Arafura Resources Limited.
Date 15th January 2010

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14 January 2010

By facsmile to: 9221 7966
By email to: gil@arafuraresources.com.au

Mr Gavin Lockyer
Company Secretary
Arafura Resources Limited
Level 5
16 St Georges Terrace
PERTH WA 6000

Dear Gavin

Arafura Resources Limited (the "Company")

VOLUME QUERY

We have noted a change in the volume of the Company's securities from 374,160 trades yesterday to 2,062,765 trades today.

In light of the volume change, please respond to each of the following questions.

1. Is the Company aware of any information concerning it that has not been announced which, if known, could be an explanation for recent trading in the securities of the Company?

   Please note that as recent trading in the Company's securities could indicate that information has ceased to be confidential, the Company is unable to rely on the exceptions to listing rule 3.1 contained in listing rule 3.1A when answering this question.

2. If the answer to question 1 is yes, can an announcement be made immediately? If not, why not and when is it expected that an announcement will be made?

   Please note, if the answer to question 1 is yes and an announcement cannot be made immediately, you need to contact us to discuss this and you need to consider a trading halt (see below).

3. Is there any other explanation that the Company may have for the volume of securities traded in the Company?

4. Please confirm that the Company is in compliance with the listing rules and, in particular, listing rule 3.1.

Your response should be sent to **facsimile number (08) 9221 2020.** It should not be sent to the Company Announcements Office.

Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event, **not later than 6.30 am (W.S.T) on Friday, 15 January 2010.**

Under listing rule 18.7A, a copy of this query and your response will be released to the market, so your response should be in a suitable form and separately address each of the questions asked. If you have any queries or concerns, please contact me immediately.

Listing rule 3.1

Listing rule 3.1 requires an entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. The exceptions to this requirement are set out in listing rule 3.1A.

In responding to this letter you should consult listing rule 3.1 and Guidance Note 8 – Continuous Disclosure: listing rule 3.1.

If the information requested by this letter is information required to be given to ASX under listing rule 3.1 your obligation is to disclose the information immediately.

Your responsibility under listing rule 3.1 is not confined to, or necessarily satisfied by, answering the questions set out in this letter.

Trading halt

If you are unable to respond by the time requested, or if the answer to question 1 is yes and an announcement cannot be made immediately, you should consider a request for a trading halt in the Company's securities. As set out in listing rule 17.1 and Guidance Note 16 – Trading Halts we may grant a trading halt at your request. We may require the request to be in writing. We are not required to act on your request. You must tell us each of the following.

- The reasons for the trading halt.
- How long you want the trading halt to last.
- The event you expect to happen that will end the trading halt.
- That you are not aware of any reason why the trading halt should not be granted.
- Any other information necessary to inform the market about the trading halt, or that we ask for.

The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted. If a trading halt is requested and granted and you are still unable to reply to this letter before the commencement of trading, suspension from quotation would normally be imposed by us from the commencement of trading if not previously requested by you. The same applies if you have requested a trading halt because you are unable to release information to the market, and are still unable to do so before the commencement of trading.

If you have any queries regarding any of the above, please let me know.

Yours sincerely,

Jenny Cutri

<u>**Assistant Manager, Issuers (Perth)**</u>

Direct Line: (08) 9224 0003