

**ARAFURA PEARL PROJECT 2010 / 11
GUIDE TO THE APPLICATION OF THE
SMALL & GENERAL BUSINESS TAX BREAK ("Tax Break")**

This guide has been prepared for those people intend on investing in the Arafura Pearl Project 2010 / 11 ("Project"). This document is prepared as a guide only and any investment in the Project should be done pursuant to the Product Disclosure Statement. As every investor's circumstances are different this guide is not intended to offer specific taxation advice, rather, a broad outline of the taxation implications of the Tax Break.

Background

The Tax Break legislation was made law on 22 May 2009. The tax break allows small business entities (turnover of less than \$2 million a year) an additional tax deduction of 50% on investment in eligible new assets worth \$1,000 or more. For businesses in excess of the \$2 million turnover threshold, the additional deduction is reduced to 10% with the minimum asset threshold raised to \$10,000. The investment commitment to acquire eligible new assets must occur prior to 31 December 2009.

The cost of eligible assets forming part of a set, identical assets or assets that are only marketed for sale in groups can be regarded, for the purposes of the tax break, as being one asset for appraising their compliance with the asset thresholds.

Provided the eligibility requirements are satisfied, the tax break can be claimed as a deduction in the income tax year in which the asset is first used or installed or ready for use up to 31 December 2010.

Application to Arafura Pearls Project 2010 / 11

Product Ruling 2009 / 55 issued on 28 October 2009 confirming the application of the Tax Break to the Project.

For each interest in the Project, the application funds are applied as follows (excluding GST):

13 x Pearl Oyster Panels	\$5,980
Initial Management Services	\$970
Total payable per interest (ex GST)	\$6,950

The Tax Break applies only to the acquisition of the Pearl Oyster Panels.

If a Grower in the Arafura Pearl Project 2010/11 is a small business entity (registered for GST), the tax deductibility of their investment in the project would increase by 50% of the cost of the panels (i.e. \$2,990 for each interest) and will **increase** the total **upfront** deductibility of the investment in the Project **from 100% to 143%** $((\$6,950 + \$2,990)/\$6,950)$.

If the Grower is a business with turnover greater than \$2 million the increased deduction will be 10% of the panel cost and therefore increases the total deductibility of the project investment to 109%.

It is noted that the above calculations **are only applicable to Early Growers 2010 and Early Growers 2011** as defined in the Product Disclosure Statement. Specifically, a Grower must commit to their investment in the Project by 31 December 2009.

Tilbrook Rasheed acts as taxation advisors to Arafura Pearls Holdings Ltd. However, for more information on the Project, please contact Arafura Pearls directly on (08) 9382 4818.