



ARAFURA RESOURCES LTD

QUARTERLY REPORT

FOR THE PERIOD ENDED 30 June 2008

HIGHLIGHTS

NOLANS PROJECT

- ▲ Work for the Definitive Feasibility Study (“DFS”) for mining, transport and infrastructure has been awarded to GHD.
- ▲ Flotation test work indicates product output from the heavy media separation plant can be upgraded beyond 6% REO and 25% P₂O₅ for minimal recovery loss – better results than the pre-feasibility study (“PFS”) assumptions.
- ▲ The demonstration plant for the leaching process (Phase 1) is successfully complete.
- ▲ The demonstration plant for phosphoric acid recovery (Phase 2) is successful with results demonstrating an acid grade and recovery better than PFS assumptions of 80%.
- ▲ The engineering for the demonstration for acid baking of rare earths materials (Phase 3) is almost complete for both the kiln and processing circuit.
- ▲ Prices for rare earths have risen 100% while supply has decreased 20% from 2007 to 2008.
- ▲ Global demand for agricultural grade phosphoric acid remains strong – Nolans is ideally positioned to supply domestic and Asian markets.



NOLANS – RARE EARTHS

Definitive (also called Bankable) Feasibility Study (DFS)

The Board of Arafura has awarded the contract for the mining, transport and infrastructure components of the DFS to GHD with sub-consultants SGMC and Hellman & Schofield. This component of the DFS is budgeted at \$8.5 million. Completion of the DFS is expected at the end of 2009.

Project Development

The design report for the full-scale heavy media upgrade plant has been received. The product grade from heavy media separation and flotation will have grades in excess of 6% REO (rare earths oxide) and 25% P₂O₅ which exceeds initial test-work. Excellent laboratory scale results for flotation of the fines fraction have prompted Arafura to commence demonstration plant scale work on this opportunity. A further 7% mass rejection with subsequent reduction in mine product and waste transport costs is targeted

The hydrometallurgical demonstration plant at ANSTO has been successfully completed all the leaching, neutralisation and phosphoric acid works.

The phosphoric acid circuit has produced better quality and recovery than pre-feasibility assumptions. The final report for phosphoric acid recovery will be completed by the end of the next quarterly reporting period.

Construction of the acid bake is well in hand and operation of the kiln for acid baking of rare earth containing solids is scheduled to commence in August 2008.

Arafura continues to claim the demonstration costs against an AusIndustry Commercial Ready grant of \$3.3 million.

NOLANS – SUSTAINABILITY

Environment

Arafura has received formal notification from the Northern Territory Department of Natural Resources, Environment and the Arts that the Notice of Intent (“NOI”) for the Nolans Project will require an Environmental Impact Statement (“EIS”) level of assessment. Taking into consideration the public review period, the approval for the mining project should be achievable by late 2009. The studies required for inclusion in the EIS have commenced and should be completed by the end of the year.



The submission required for the Commonwealth Government's *Environmental Protection & Biodiversity Conservation Act* was lodged.

A draft document has been prepared for the NOI for the Nolans processing plant. This will be reviewed and submitted when a preferred location has been determined.

Community

Initial discussions have been held with the Central Land Council to commence the process of negotiating a formal mining agreement for the project.

Arafura has been advised that the Nolans Project has been awarded major project status by the NT Government. This will enable a whole of government approach to the project coordinated by the NT Department of the Chief Minister.

MARKET

Rare Earths Industry Dimensions Today

The volume of rare earths oxide ("REO") to be produced in 2008 is estimated at 132,000 tonnes with a value of US\$1.5 billion to US\$2.0 billion. The market has been growing historically at a rate between 8% to 12% over the past 10 to 15 years.

China supplies more than 95% of global demand and consumes 75,000 to 80,000 tonnes of REO per annum at an annual growth of 15-20%. China has finite economic reserves of rare earth resources that have recoveries of only 10% to 40%.

Recent Developments

The recent natural disasters (earthquakes and floods) endured by China have had a significant impact on the mining and production of rare earths in Inner Mongolia and Szechuan. As a result, the already tight rare earth supply/demand situation caused by production quotas and the enforcement of environmental legislation has been exacerbated, as shown by the increase in price of rare earth carbonate over the past four years.

In the very short term the market for rare earths is soft with a lack of suppliers and buyers given the stand-down (by Government order) of much of the industry due to the Olympic Games. This softness is likely to be short with resumption of all market activities after the Olympic Games.

Outlook for Rare Earths in 2012

In light of ongoing stoppages and efforts by the Chinese authorities to control the rare earths industry to the benefit of China, the outlook for non-Chinese rare earth producers remains positive.



Recent data released by China Customs clearly demonstrates that the reduction of export quotas, increases to export taxes and moves by individual provinces to maximize added value manufacturing within those provinces has put supply and price pressures on Western rare earth consumers.

The comparisons from the period 2006 and 2007 are:

- Rare earth exports fell by 23%, from 61,793 to 44,701 tonnes;
- Overall prices increased by 100%;
- Neodymium metal exports fell by 4%, while prices increased by 100% to US\$34/kg;
- Europium oxide exports fell by 30%, while prices increased by 26% to US\$310/kg REO;
- Rare earth carbonate exports fell by 28%, while prices increased by 44% to US\$5.25/kg REO.

It is likely that the statistics between 2007 and 2008 will reflect the same magnitude of change as those indicated above from 2006 to 2007.

Phosphoric Acid

Demand for phosphoric acid (PA) continues to remain strong. There has been a stabilisation of prices for phosphoric acid around the US\$1,800 to US\$2,000 per tonne range based on the demand for fertiliser in the agricultural market. This trend for PA will continue to be strong as major manufactures of fertilisers in China are withdrawing from the export market and export trade tariffs by Chinese Authorities reduce supply.

Recently the Indian Ministry for Steel, Chemicals and Fertilisers announced it had recommended to the Indian Government a ban on exports of sulphuric and phosphoric acid in an attempt to alleviate pressures on fertiliser companies and to ease the government's subsidy burden. It is forecast that the subsidies will treble to more than 950 billion rupees this year the equivalent of US\$28 billion. The Indian government pays subsidies to fertiliser companies in exchange for them supplying cheap fertiliser to poor farmers.

This places Arafura in a very strong position for domestic supply of PA as Australia is a net importer of phosphoric acid.

EXPLORATION

Strategic Rare earth growth opportunities

Based on the strong growth opportunity in rare earths, the apparent long term retraction by China in rare earth exports and the likelihood that China will become a major importer of rare earth materials, the Company has implemented a program to investigate the opportunity for additional rare earth projects globally. This has commenced with a literature review of potential opportunities.



Nolans - Resource Definition & Exploration

All samples from the September 2007-April 2008 resource definition and exploration drilling campaign at Nolans are waiting final assay reporting.

The first assay results reported in early-April (ASX:ARU 01/04/08) highlighted several drill intercepts of high-grade rare earths, phosphate and uranium from the central part of the North Zone mineralisation (assays up to 26.6% REO, 27.1% P₂O₅, 5.6 lb/t U₃O₈ over separate intervals). The same report documented a new and potentially significant mineralized zone within an area in the central part of the deposit. Assays from this zone will be reported in the next few weeks.

EXPLORATION – Rare Earths Aileron – Reynolds Range (100% ARU)

Final results from the regional airborne hyperspectral (HyMap™) survey, flown during March 2008 over Arafura's Aileron – Reynolds Range tenements SEL 23671 and EL 23571, have now been delivered and interpretation has commenced. The data will be used to assess the exploration potential for Nolans style mineralisation in the tenement.

EXPLORATION – Vanadium Jervois (100% ARU)

A 5,000 metre drilling program has been completed at the Jervois vanadium-magnetite project. The size potential of three magnetite zones was systematically tested with 41 drill holes on 100 metre spaced drill lines. All assay samples have now been submitted for compositing, magnetic susceptibility and DTR (Davis Tube Recovery) analysis.

JOINT VENTURES

Hammer Hill – Base Metals (Mithril Resources and BHP Billiton)

Drilling of three geophysical targets on the Hammer Hill project by Mithril Resources has been completed. Significant intervals of sulphide mineralisation have been identified and several leading indicators from drill assays and down hole geophysics indicates that more drilling is warranted. Assays are consistently anomalous in copper with the best intercept returning 4.52 metres at 0.39% copper from 341.75m down hole.

BHP Billiton has exercised their earn-in under the terms of the Arafura-Mithril-BHP Billiton Hammer Hill JV.

The information in this release that relates to exploration results and geological interpretation has been compiled by Mr Richard Brescianini BSc (Hons) and the information in this release that relates to metallurgical results and interpretation has been compiled by Mr Steven Mackowski, both full-time employees of Arafura Resources Limited.

Mr Brescianini is a Member of the Australian Institute of Geoscientists and he has sufficient experience with the style of mineralisation being reported to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (The JORC Code)" for reporting these exploration results. Mr Brescianini consents to the inclusion in this report of the contained technical information in the form and context in which it appears.

Mr Mackowski is a Fellow of the Australian Institute of Mining and Metallurgy and he has sufficient experience with the style of mineralisation being reported to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (The JORC Code)" for reporting these metallurgical results. Mr Mackowski consents to the inclusion in this report of the contained technical information in the form and context in which it appears.



ARAFURA RESOURCES LTD

ABN 22 080 933 455

CORPORATE OFFICE

Level 4, 16 St Georges Terrace, Perth WA 6000

T: + 61 8 9221 7666 F: + 61 8 9221 7966

E: arafura@arafuraresources.com.au

DARWIN OFFICE

Level 2, Tourism House, 43 Mitchell Street, Darwin, NT, 0801

T: + 61 8 8942 2700 F: + 61 8 8942 2788

BOARD

Irvin (Mick) Muir	Chairman
Alistair Stephens	Managing Director
Ian Kowalick	Director
Terry Jackson	Director
Steve Ward	Director
Ian Laurance	Director
Gavin Lockyer	Company Secretary

MANAGEMENT

Gavin Lockyer	Chief Financial Officer
Steven Mackowski	GM – Project Development
Richard Brescianini	GM – Strategy & Exploration
Brian Fowler	GM - Sustainability

SHARES & OPTIONS

Shares 157.2m ordinary shares

ASX CODES

ASX: ARU

STRATEGY

Arafura has an exploration and development program to grow its position in rare earth projects that are consistent with additional growth beyond the Nolans project.

The Company will focus on the identification and development of rare earth projects and becoming a specialist in rare earths products and their markets.

GROWTH through DEVELOPMENT

Arafura's primary focus is the development of the Nolans rare earths-phosphate-uranium project. The deposit has a resource to sustain a mine life of over 20 years and Arafura has developed a processing flowsheet that optimises the extraction of rare earths, phosphoric acid, and uranium.



Appendix 5B

MINING EXPLORATION ENTITY QUARTERLY REPORT

ARAFURA RESOURCES LTD

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Quarter ended ("current quarter")

30 June 2008

Consolidated statement of cash flows

	Current Qtr \$A'000	Year to Date (12 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	1,250	2,640
1.2 Payments for: (a) exploration and evaluation	(2,265)	(6,506)
(b) development	(1,230)	(2,730)
(c) production	-	-
(d) administration	(1,244)	(4,170)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	247	810
1.5 Interest and other costs of finance paid	(20)	(70)
1.6 Income taxes paid	267	375
Net Operating Cash Flows	(2,995)	(9,651)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(72)	(445)
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	110
(c) other fixed assets	-	-
1.10 Loans to/from other entities	-	-
1.11 Loans repaid by other entities	-	376
1.12 Other (provide details if material)	-	-
Net Investing Cash Flows	(72)	41
1.13 Total operating and investing cash flows (carried forward)	(3,067)	(9,610)



1.13 Total operating and investing cash flows (brought forward)	(3,067)	(9,610)
Cash flows related to financing activities		
1.14 Proceeds from the issue of shares, options, etc.	1,555	20,789
1.15 Proceeds from the sale of forfeited shares	-	-
1.16 Proceeds from borrowings	-	-
1.17 Repayment of borrowings	-	-
1.18 Dividends paid	-	-
1.19 Other – Capital Raising Expenses	(14)	(1,100)
Net financing cash flows	1,541	19,689
Net increase (decrease) in cash held		
1.20 Cash at beginning of quarter/year to date	(1,526)	10,079
1.21 Exchange rate adjustments	16,351	4,746
	-	-
1.22 Cash at end of quarter	14,825	14,825

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

- 1.23 Aggregate amount of payments to the parties included in item 1.2
- 1.24 Aggregate amount of loans to the parties included in item 1.10
- 1.25 Explanation necessary for an understanding of the transactions

Current Qtr \$A'000
79
Nil

Directors fees & superannuation

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

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- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil



Financing facilities available

Add notes as necessary for an understanding of the position

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	Nil	Nil
3.2 Credit standby arrangements	Nil	Nil

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	7,177
4.2 Development	1,810
Total	8,987

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to related items in the accounts as follows.

	Current Quarter \$A'000	Previous Quarter \$A'000
5.1 Cash on hand and at bank	(16)	11
5.2 Deposits at call	14,841	16,340
5.3 Bank Overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (Item 1.22)	14,825	16,351

Changes in interests in mining tenements

	Tenement Reference	Nature of interest	Interest at Beginning of Quarter	Interest at End of Quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	EL 10214	Lease	100%	100%
	EL 9710	Lease	42 Blocks	21 Blocks
	EL 9745	Lease	72 Blocks	36 Blocks



6.2 Interests in mining tenements acquired or increased

EL 26318	Lease	Nil	100%
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Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Number Issued	Number quoted	Issue price per security (cents)	Amount paid up per security (cents)
7.1 Preference securities (description)				
7.2 Issued during Quarter				
7.3 Ordinary securities	157,194,500	157,194,500		
7.4 Issued during Quarter	12,464,615	12,464,615	\$0.13	\$0.13
7.5 Convertible debt securities (description)				
7.6 Issued during quarter				
7.7 Options				
ARUO exp 30-6-08 (13c)	-	-		
ARUAY exp 30-6-08 (13c)	-	-		
ARUAA exp 30-6-09 (22c)	100,000	-		
ARUAI exp 30-6-09 (26c)	750,000	-		
ARUAK exp 30-6-09 (30c)	750,000	-		
ARUAB exp 30-6-10 (75c)	500,000	-		
ARUAM exp 30-6-11 (\$1.72)	950,000	-		
ARUAC exp 30-6-11 (\$1.60)	100,000	-		
ARUAS exp 30-6-11 (\$1.31)	300,000	-		
ARUAZ exp 30-6-11 (\$1.70)	200,000	-		
7.8 Issued during Quarter	-	-	-	-



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7.9 Exercised during Quarter – ARUO Quarter - ARUAY	9,464,615 3,000,000	9,464,615 -	\$0.13 \$0.13	\$0.13 \$0.13
7.10 Expired during Quarter - ARUO	287,983	287,983	\$0.13	-
7.11 Debentures (totals only)				
7.12 Unsecured notes (totals only)				

Statement

1. This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
2. This statement does give a true and fair view of the matters disclosed.

Sign here:

Date: 28/07/2008

Gavin Lockyer
Company Secretary

Notes

1. The quarterly report is to provide a basis for informing the market how the activities of the entity have been financed for the past quarter and the effect on its cash position. Any entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The “Nature of Interest” (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
3. **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
4. The definitions in, and provisions of, AASB 1022: Accounting for Extractive Industries and AASB 1026: Statement of Cash Flows apply to this report.
5. **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.
