ARAFURA RESOURCES LTD

QUARTERLY REPORT

FOR THE PERIOD ENDED 30 September 2007

NOLANS PROJECT

- Pre-Feasibility Study (PFS) on the Nolans project estimates the net present value of at least AUD$1.1 billion and to sustain an operating life in excess of 20 years.
- Total sales revenue of at least AUD$8.25 billion over 20 years (in 2007 dollar terms using conservative pricing at an AUD: USD exchange rate of 0.90).
- Demand for rare earths rates growing in excess of 11.5% pa.
- Current resource drilling aimed at extensions to current resources and high grade mineralisation.
- A Mineral Lease application has been lodged and the Notice of Intent is substantially complete.

OTHER ACTIVITIES

- Scheduling of the Jervois vanadium drilling program has been postponed until the first quarter of 2008.
- Soil sampling assays from the Kurinelli gold project are pending.
- High priority discrete geophysical anomalies with nickel potential have been identified by an airborne geophysical survey on the Hammer Hill nickel JV with Mithril Resources.
- Annual Report issued to all Shareholders with the AGM scheduled for 23 November 2007.

NOLANS – Rare Earths

Resource Drilling

A program of approximately 10,000 metres of RC percussion drilling commenced at Nolans during mid-September with the primary aim of improving resource definition in the central part of the North Zone to a depth of 100 metres below surface. The Company expects this area of exposed resource will be the focus of initial mining activities from 2011.

This zone also contains higher grade mineralization that will be the focus of feed grade determination. Additional drilling is aimed at confirming extensions to higher grade mineralisation.

Project Development

In September 2007, Arafura published the results of the Pre-Feasibility Study (PFS) for Nolans with an estimated AUD$1.1 billion net present value (2007).

This is based on a conservative approach to resource grade, capital costs, operating costs, rare earths prices, hurdle rates and exchange rate with escalation factors on costs and prices. This approach is consistent with the project planning practices of major companies, some that may become strategic partners in the project

It is important to note that processing chemical costs are based on the consumption rates used during laboratory scale test work that is typically sub-optimal. During pilot plant operation, chemical use will be optimised to minimise consumption rates and maximise extraction recoveries.

The pilot plant phase is an essential part of the process needed to determine the optimum consumption of chemicals in a stable, steady-state continuous process.

Until further work can improve the level of certainty in the planning parameters and define further improvements, the company will continue to adopt the conservative approach used in the PFS.

It is reasonable to expect that the project valuation will be enhanced as pilot plant activities optimise capital and operating parameters.

The PFS has been undertaken using highly respected and experienced engineering consultants Bateman Litwin, ANSTO, SKM and GHD. Each of these organizations is internationally recognized for delivering high quality engineering studies.

Resource Grade

The Company has used the average resource grade (3.1% REO, 14% P2O5, 0.47 lb/t U3O8) as the basis of the feed grade over the life of the operation. This may change following further assessment

of the optimum relationship between cut-off-grade and head grade and the subsequent relationship to resource tonnage.

The conservative average resource grade approach used in the PFS is justified until the Company has more resource classification data. Initial assessment indicates that a higher feed grade of rare earths is possible. The current phase of drilling will enable the Company to assess the potential tonnage of higher grade mineralisation in the context of total resource mineralisation and the probable extensions to mineralisation.

Revenue

Total sales revenue in 2007 value over the 20 year operation is calculated at AUD$8.25 billion. This assumes;

• Rare Earths	20,000 tonnes	US$11,600 per tonne
• Phosphoric Acid	150,000 tonnes	US$400 per tonne
• Calcium Chloride	400,000 tonnes	US$100 per tonne
• Uranium Oxide	150 tonnes	US$100 per pound
• Exchange Rate	AUD:USD	0.90

An exchange rate of AUD: USD 0.75 has a +$75m p.a. impact to revenue.

Capital Costs

A conservative approach to capital costs has been undertaken and includes capital on the basis that the operation commences with more expensive imported chemicals rather than on-site production.

Investigations into capital efficiency are currently in progress. The factors to be considered include:

- All capital costs are expensed over the life of operation of 20 years.
- A base capital cost of AUD$450 million for plant and equipment.
- A contingent capital allowance of AUD$120 million in the event of changes of scope during the Definitive Feasibility Study (DFS).
- The inclusion of AUD$180 million first-fill costs associated with pre-commissioning start-up expenses. This cost is expected to reduce as the Company identifies chemical cost savings.
- An additional demand driven escalation of 10% to account for mining industry capital costs in a period of high demand for labour, materials and plant.
- The conservative approach by the Company has been adopted because in the recent past many mining projects have substantially underestimated capital and start-up costs.

- The costs are estimated on Australian build and construction costs and have not included potential savings from construction of components overseas where there would be cost savings.

Operating Costs

Total operating costs are estimated at AUD$350 million per annum, 70% of which are chemical costs. Reducing these costs is a key focus for project optimisation.

The PFS conservatively used chemical costs on the basis of importing all processing chemicals. This approach was used while negotiations for suitable industrial land with the Northern Territory Government and appropriate chemical manufacturers are undertaken.

The key issues are:

- On-site manufacture of hydrochloric acid and caustic soda would reduce import transportation costs of these chemicals by at least AUD$60 million per annum.
- Additional savings could be realised on the basis of on-site manufacture of all chemicals.

The reduction in operating costs and the synergy associated with on-site manufacture of key chemicals will be a focus for increasing the value of the project. Discussions for on-site manufacture are on-going and further optimisation will occur during the pilot plant studies and the DFS in 2008 and 2009.

Pricing

The following prices have been used in the valuation criteria and are compared with current pricing.

	Used in valuation	**Current prices**
Rare Earths^	US$11,600/t	US$13,900/t
PA fertiliser grade*	US$400/t	US$500/t
PA technical grade*	na	US$600/t
Calcium Chloride**	US$100/t	US$250/t
Uranium Oxide	US$100/lb	US$80/lb

*PA refers to Phosphoric Acid as either fertiliser grade or technical grade.

**Calcium Chloride has been priced on a liquid basis.

^ Refer to table of rare earth pricing in this report.

Escalation factors

It should be emphasised that prices for rare earths, phosphoric acid, uranium and calcium chloride can be negotiated on a contract basis (rather than on a spot market basis) where escalation rates may be incorporated through rise and fall clauses. All these commodities therefore have negotiable terms.

Demand for rare earths is currently growing at 11.6% per annum in volume while prices have increased by 40% to 100% depending on the individual element. Growth in demand for materials for the flat panel market is growing at 35-40% and rare earth magnets at 15-20% per annum and is forecast to continue. The Nolans project is relatively enriched in these types of rare earth elements.

Rare earths prices in general will rise and fall at variable rates. In the PFS, pricing is based on some products deflating, some inflating and some maintaining stable pricing.

Escalation rates of 3% for operating costs, capital costs of 10% (until construction) and variable escalation rates on products are entirely justifiable. Analysis without escalation still returns very positive valuations.

Exchange rate

The PFS conservatively uses the current exchange rates of about AUD1.00 = USD.90. Long term forecasts for the US to Australian dollar exchange rate range from 0.75 to 0.80.

In the current economic climate, the forecast is for the US dollar to depreciate against other currencies. However the relationship between the Australian dollar and other national currencies (like our potential customers) is more stable.

Short term strength in the Australian dollar exchange rate would have a benefit to capital costs on equipment that could be manufactured overseas.

Long term forecasts of an average exchange rate in the range of 0.75 to 0.80 will have significant impact on the project value through product pricing if the Company chooses to negotiate prices in US currency.

Production rates

The Company has deferred production start-up till 2011 having regard for the time needed for the approval processes and the necessity for the project to be referred to the Commonwealth Government for approvals and to account for potential construction and/or supply delays. Conservatism is also warranted until the process flow sheet has been fully assessed during the pilot plant.

The PFS assumes the project starts up with significant volumes of imported chemicals. It has been assumed that these volumes may be restricted by limitations at the Darwin port and transport systems until a detailed logistics exercise can be undertaken. Therefore commissioning and start-up

rates have been conservatively estimated to account for these possible limitations of the infrastructure. On-site manufacture of chemicals is likely to allow a faster production ramp up.

Mineral Lease Application

Arafura lodged an application for a Mineral Lease (ML 26437 – "Nolans 1") over the Nolans deposit with the Northern Territory Department of Primary Industry, Fisheries and Mines (ASX announcement 02/10/07) in late-September. The ML is approximately 1,400 hectares in size and, in addition to the deposit itself, covers adjacent areas presently considered necessary to accommodate on-site processing facilities, waste rock stockpiles and tailings repositories sufficient for the life of the operation.

Environmental Assessment

A Notice of Intent (NOI) for the project is substantially complete. At the time of lodgement of the NOI to the Northern Territory Government, the project will also be referred to the Australian Commonwealth Government under the *Environment Protection & Biodiversity Conservation Act*.

Project Strategy

Arafura has undertaken significant research into the structure of the rare earths market value chain, the location of our processing capability, and potential alliances with downstream operators. This has involved a significant investment of management time in developing key customer relationships. Arafura is assessing the interest and ability of potential strategic partners to participate in project development that would provide a simplification of the product supply chain from resource to end customer. Work on these engagement strategies continues.

Marketing

Rare Earths

There has been strong demand for rare earths over the past quarter with the average consumption rate growing at more than 11.5% per annum.

The strengthening demand continues to be driven by both the industrial and domestic sectors of the global economy. The strong economic growth of Brazil, Russia, India and China is generating significant demand for FCC petroleum cracking catalysts and autocatalysts. The strong growth in global demand for rare earth based electronic displays (such as flat panel screens laptop computers and mobile phones) are driving the consumption of rare earth phosphors. The growth in sales of hybrid vehicles and the embodying of stepper motors in many products is driving demand for rare earth magnets.

The Chinese authorities continue to maintain their tight control of the rare earths industry through a combination of production quotas, export quotas and taxes, and the increased enforcement of

environmental standards. Chinese policy makers have stated that rare earth controls will be implemented to the advantage of the Chinese manufacturing sector and it is reasonable to conclude that export quotas will tighten.

The opportunity for the Nolans project lies in the ability to supply growing non-Chinese demand for rare earths.

Rare earth prices have experienced some softness in the past quarter compared with the previous quarter. The fluctuations are consistent with the normal variability of demand in any year as a result of the timing of the announcements of export quotas, plant shutdowns, public holidays and the buying patterns of the major consumers.

Based on current 2007 rare earths prices, the average sale price of the mix of rare earths from the Nolans project is US$13.90/kg REO, compared with the estimate of US$11.60/kg used in the PFS. This indicates the strong growth in demand for rare earths.

The table below shows the increase in prices over the past four years, based on data from similar periods in past years.

Rare Earth Oxide (99% grade)	Nolans REO Distribution	3rd Qtr 2004 US$/kg	3rd Qtr 2005 US$/kg	3rd Qtr 2006 US$/kg	3rd Qtr 2007 US$/kg	Prices used in Nolans valuation
Cerium Oxide	48.32%	1.55	1.45	1.55	**3.60**	**1.50**
Lanthanum Oxide	20.40%	1.60	1.460	1.80	**3.80**	**1.75**
Neodymium Oxide	21.06%	5.80	7.80	14.70	**35.0**	**35.0**
Praseodymium Oxide	5.91%	8.20	8.40	17.50	**33.0**	**30.0**
Samarium Oxide	2.37%	2.65	2.50	3.00	**3.25**	**5.0**
Gadolinium Oxide	0.95%	n/a	n/a	n/a	**n/a**	**5.0**
Europium Oxide	0.37%	300	285	240	**340**	**300**
Dysprosium Oxide	0.34%	35	45	78	**85**	**85**
Terbium Oxide	0.08%	355	315	530	**580**	**0**
Other	0.20%	-	-	-	**-**	**0**
Weighted Average Nolans Value	**100%**	**US $4.35**	**US$ 4.70**	**US$ 6.90**	**US$ 13.90[3]**	**US$ 11.60**

Note: 1. Source for prices is Meta- *pages* 2. Prices have been rounded. 3. Excludes terbium

Phosphoric Acid

Demand for phosphoric acid remains strong in keeping with the growth of the global economy; especially in the Asia-Pacific region, a key market for the project.

Calcium Chloride

Australia recognises the need to conserve scarce water resources including within the Australian mining industry. Calcium chloride is used as a dust suppressant that significantly reduces water consumption in unsealed road or other mining and construction applications. In addition the use of calcium chloride in the construction of unsealed roads improves compactibility and reduces maintenance costs. Arafura is developing a marketing strategy to leverage its product advantage in water conservation and road construction.

Uranium

The current spot price of yellow cake is about US$75-80/lb U_3O_8.

Exploration – Vanadium

Jervois (100% ARU)

At Jervois, a program comprising approximately 7,500 metres of RC drilling will further investigate the extent of vanadium-bearing magnetite mineralization encountered during the Company's 2006 exploration program (ASX announcement 19/07/07), and test an additional eight to ten target areas. The timing of this program has been postponed until the first quarter of 2008 to accommodate the availability of Arafura's preferred drilling contractor for this work.

Exploration – Gold

Kurinelli (100% ARU)

An infill soil program at the Kurinelli gold project, located 150 kilometres SE of Tennant Creek, was completed in mid-August. The program, designed to cover the northern portion of an extensive 8.25 km2 gold-in-soil anomaly, comprised 2,638 samples on a 25 metre x 50 metre grid. This survey will assist in identifying targets for drill testing during 2008.

The Company anticipates reporting on the results of the soil survey during the final quarter of 2007.

JOINT VENTURES

Hammer Hill – Nickel (Mithril Resources)

A VTEM airborne electromagnetic survey over the Hammer Hill project area, commissioned by Mithril Resources, is now complete and final processed results are awaited. Preliminary data indicates that several conductive anomalies, which may be indicative of nickel sulphide mineralization, have been generated by this airborne survey on the Hammer Hill tenements. Two highly conductive, discrete features are considered high priority for immediate ground follow-up. Drill testing of a range of targets is scheduled for the first quarter of 2008.

Frances Creek – Iron/Gold (Territory Resources)

To simplify the progress of the termination of the Frances Creek iron ore royalty payment scheme, Territory Resources Limited has agreed in principle to purchase Frances Creek Pty Ltd, a wholly owned subsidiary of Arafura, whose only assets are tenements AN 389 and EL 23237. Consequently, the royalty cancellation transaction now involves four tenements (AN 389, EL 10137, EL 22270 and EL 23237) instead of the original three.

In consideration for the sale of all mineral rights on these tenements (except gold), Arafura will receive a total of $2.5 million.

CORPORATE

AGM and Notice of Meeting

The Notice of Meeting has been posted to all shareholders. The AGM has been set for 10:30am on Friday 23 November 2007 at the City West Function Centre in Perth. Clarification on some resolutions is provided given the Company has received a number of queries regarding resolutions 6 and 7 contained in the Notice of Meeting.

Resolution 6 refers to the approval of the Arafura Employee Option plan. This plan was previously approved by shareholders at a General Meeting held on 15 July 2005 and has enabled the Company to attract and retain appropriate staff by allowing a component of their remuneration to include the issue of options in the Company. Resolution 6 will allow the Company to continue to issue options to new and existing employees. While the plan permits options being issued to Directors, no such issue to Directors can be effective without obtaining specific shareholder approval. Resolution 6 is seeking re-approval of the plan per-se, not specific approval to issue options to Directors.

Resolution 7 is seeking approval to increase the Directors pool of funds. This pool currently sits at $300,000 and has not been changed since the AGM in 2005, and Directors are currently utilizing $268,800 of this total pool. The resolution is seeking an increase to this pool to $700,000 to enable the Company to attract additional suitably qualified persons (as required) and to effectively remunerate appropriate Board members.

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

PROJECT & EXPLORATION OFFICE

Level 2, Tourism House, 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
Gavin Lockyer	Company Secretary / CFO

MANAGEMENT

Steven Mackowski	GM – Projects
Richard Brescianini	GM – Exploration
Dudley Kingsnorth	REO Marketing

SHARES & OPTIONS

Shares	123.4m ordinary shares
Options	12.3m (13cent) options Expiry on 30 June 2008.

SHARE PRICE–90 day average is $1.67

ASX Codes

ASX: ARU, ASX: ARUO

STRATEGY

Arafura is focused on exploring and developing projects in the Northern Territory of Australia. The NT still has vast areas of highly prospective ground that has never been explored.

GROWTH through DEVELOPMENT

Arafura's primary focus is the development of 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, uranium and calcium chloride.

GROWTH through EXPLORATION

Long term sustainable development and the creation of shareholder wealth can also be realised through exploration success. Arafura has exploration projects in gold, nickel and vanadium and will assess other exploration opportunities that are consistent with additional growth beyond the Nolans project.

Appendix 5B

MINING EXPLORATION ENTITY QUARTERLY REPORT

ARAFURA RESOURCES LTD	
ACN or ARBN	Quarter ended ("current quarter")
080 933 455	30 September 2007

Consolidated statement of cash flows

	Current Qtr $A'000	Year to Date (3 months) $A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	115	115
1.2 Payments for: (a) exploration and evaluation	(1,170)	(1,170)
(b) development	-	-
(c) production	-	-
(d) administration	(934)	(934)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	63	63
1.5 Interest and other costs of finance paid	(21)	(21)
1.6 Income taxes paid	-	-
Net Operating Cash Flows	(1,947)	(1,947)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects		
(b) equity investments	-	-
(c) other fixed assets	(3)	(3)
1.9 Proceeds from sale of: (a) prospects	-	
(b) equity investments	69	69
(c) other fixed assets	-	-
1.10 Loans to/from other entities	-	-
1.11 Loans repaid by other entities	376	376
1.12 Other (provide details if material)	-	-
Net Investing Cash Flows	442	442
1.13 Total operating and investing cash flows (carried forward)	(1,505)	(1,505)
1.13 Total operating and investing cash flows (brought forward)	(1,505)	(1,505)

Cash flows related to financing activities		
1.14 Proceeds from the issue of shares, options, etc.	205	205
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	-	-
Net financing cash flows	205	205
Net increase (decrease) in cash held	(1,300)	(1,300)
1.20 Cash at beginning of quarter/year to date	4,746	4,746
1.21 Exchange rate adjustments	-	-
1.22 **Cash at end of quarter**	3,446	3,446

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

	Current Qtr $A'000
1.23 Aggregate amount of payments to the parties included in item 1.2	67
1.24 Aggregate amount of loans to the parties included in item 1.10	Nil

1.25 Explanation necessary for an understanding of the transactions

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

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	750
4.2 Development	-
Total	750

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	79	56
5.2 Deposits at call	3,367	4,690
5.3 Bank Overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (Item 1.22)	3,446	4,746

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	EL9701 EL9710 EL9745	Leased Leased Leased	100% 23 Blocks 100% 56 Blocks 100% 96 Blocks	Nil 100% 42 Blocks 100% 72 Blocks
6.2 Interests in mining tenements acquired or increased				

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**	123,441,570	123,441,570		
7.4 Issued during Quarter	1,407,900 100,000	1,407,900 100,000	$0.13 $0.22	$0.13 $0.22
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) ARUAI exp 30-6-09 (26c) ARUAK exp 30-6-09 (30c) ARUAB exp 30-6-10 (75c) ARUAM exp 30-6-11 ($1.72) ARUAC exp 30-6-11 ($1.60) ARUAS exp 30-6-11 ($1.31) ARUAZ exp 30-6-11 ($1.70)	 12,349,413 3,000,000 100,000 750,000 750,000 500,000 950,000 100,000 300,000 200,000	 12,349,413 - - - - - - - - - -		
7.8 Issued during Quarter	100,000 300,000 200,000		$1.60 $1.31 $1.70	$1.60 $1.31 $1.70
7.9 Exercised during Quarter – ARUO - ARUAA	1,407,900 100,000	1,407,900 100,000	$0.13 $0.22	$0.13 $0.22
7.10 Expired during Quarter	-	-		
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: 29/10/2007

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.

****