



ARAFURA RESOURCES LTD

QUARTERLY REPORT FOR THE PERIOD ENDED 31 March 2007

- ▲ After a distinguished and successful technical and business career over 40 years, Mr Peter Neville Walker resigned as Chairman of Arafura.
- ▲ Arafura appoints Richard Brescianini, formerly Director of the Northern Territory Geological Survey, as General Manager for Strategic Development and Exploration.
- ▲ The De-merger of NuPower Resources Ltd successfully launched on 16 March 2007. As a result a major improvement in the share price of both companies has occurred. The NuPower share price averages \$1.00 from a listing price of 20 cents.
- ▲ A strong rise in the Arafura share price occurred during the quarter, post Demerger due to a strong recognition in Europe of the depth Arafura has in the Nolans Project in a major long life resource, in products with a fundamental strategic use in technology and environmental abatement strategies.
- ▲ The prices for rare earths and phosphate continued to grow strongly during the quarter.
- ▲ Cross-checking of assays for vanadium and iron from Jervois project nearing completion. Final results due in mid-May 2007.
- ▲ Arafura about to commence extensive exploration programs in 2007 at Nolans (rare earths), Kurinelli (gold) and Jervois (vanadium) projects. Significant increases in resources are expected.



Corporate Activities

Mr Peter Neville Walker resigns as Chairman of Arafura

Mr Peter Neville Walker, the founding Chairman of Arafura resigned on 27 February 2007 to retire.

Mr Walker graduated from New Zealand in mathematics and geology. After a distinguished career assessing the strategic potential for projects in many commodities across the globe, Mr Walker joined Dominion Gold as Managing Director in 1980. Under his perceptive guidance, Dominion grew from a small capped exploration company with a market capitalisation of \$4m to Australia's premier gold mining house with a market capitalisation of \$800m in 1990. Mr Walker was also the founding Chairman of Anvil Mining Ltd, now a major copper producer.

The Board of Arafura is privileged to have known and worked with Mr Walker and to have been able to be part of his vision in the creation of Arafura as a publicly listed company.

Mr Walker made a major contribution in listing Arafura on the Australian Stock Exchange in November 2003. As a seed investor, Mr Walker's foresight and corporate knowledge, in conjunction with his ability to recognise the strategic importance of rare earths minerals, have been instrumental in the growth of Arafura.

Appointment of Richard Brescianini

On 16 March 2007, Arafura was pleased to announce that Richard Brescianini accepted the position of **General Manager for Strategic Development and Exploration** with Arafura. Mr Brescianini was previously Director for the Northern Territory Geological Survey where he worked for 7 years. Mr Brescianini's career spans 20 years in the minerals industry for companies like BHP Minerals.

NuPower Resources Ltd is listed on the ASX

On 16 March 2007, Arafura successfully listed NuPower Resources Ltd on the Australian Stock Exchange. Shareholders and Optionholders each received one share in NuPower for every three securities held in Arafura. Arafura will continue to hold its 10% interest in NuPower which at a share price of 84 cents (as at 27/4/07) is worth \$3.67m.



Nolans Project - Rare Earths, Phosphate, Uranium (100% ARU)

Exploration & Resource Definition

In early February 2007, core drilling in the central mineralised zone at Nolans was completed. Drilling commenced in September 2006 and had delays associated with slow drilling due to hard ground conditions (especially in the host rock), localised flooding due to rain storms and the Christmas holiday period. All materials have been trucked to Darwin and are being prepared for sampling.

The data obtained from this drilling will be used to determine feed to the pilot plant at the end of this year. The data is important as the drilling is located in an area that will represent the initial material into the final plant.

In the 2007 calendar year, Arafura will undertake further exploration drilling to define additional resources and to assess the potential for mineralisation in the northern and eastern area of the deposit that has shallow (1-2 metre) soil cover.

The Company believes that mineralisation in the southern and western area of the deposit can be classified as resources with this additional drilling. The grades of rare earths, phosphate and uranium are typical of the average grade of the deposit and it is anticipated that this additional drilling will significantly increase the resources of these commodities.

Metallurgical Test Work - *Rare Earths*

In the previous quarter, the caustic cracking test work indicated that improved recoveries could be achieved with the rejection of clay minerals from the feed to the process. Two drums of material were collected and despatched to Bateman in Israel. No results are currently available.

It is anticipated the additional clay test work will provide additional benefits to the overall metallurgical process and project economics. Clay is typically rejected through a simple washing and/or physical separation process. "Gangue" (waste rock) rejection results in an increase in the grade and a reduction in the volume of ore. The reduced volume will reduce transport costs should the recovered concentrate be transported to Darwin and the higher grade should significantly reduce the capital costs of downstream processing. The rejection of clays from the caustic cracking process is likely to improve the recovery of rare earths significantly and therefore the economics of the project.



Metallurgical Test Work - *Phosphate*

Arafura has received the test work report from Bateman indicating that the recovery of phosphoric acid is technically viable. The results indicate that 80% of the phosphate can be recovered producing a phosphoric acid with a grade of 48% and very low impurities of other deleterious materials.

Bateman's initial scoping works for the phosphoric acid plant indicate that the capital cost of a 60,000 tonne per annum plant is about US\$55 million.

Metallurgical Test Work - *Calcium Chloride*

Calcium Chloride is produced from the residue from phosphoric acid recovery. Bateman have undertaken preliminary assessments that would indicate the viability of making a calcium chloride "flake" (solid product). These assessments are very encouraging and indicate that it is possible to produce marketable product. No further work will be undertaken until rare earths and uranium extraction are completed.

Marketing - Rare Earths

The demand for rare earths continues to grow at a strong rate of more than 10% per annum. In conjunction with this demand the supply of rare earths tightened due to the Chinese government placing restrictive quotas on rare earth mining and exports of RE products, such that supply has fallen. Demand however is still increasing.

The need for products that will help abatement strategies for greenhouse gas emissions is resulting in strong growth in rare earths. Lanthanum and Neodymium are key materials for hybrid cars that reduce fuel consumption and reduce greenhouse gas emissions. Neodymium prices reached US\$25,000 per tonne during the quarter and there are strong indications that the prices for both neodymium and lanthanum will strengthen further.

The market for rare earth phosphors is likely to grow very strongly in 2007. The Australian government has indicated the potential banning of tungsten based lighting in preference for energy efficient lights. These lights are dependent on rare earths. Given the short supply of these products, a strong rise in prices is likely.

Nolans is strongly enriched in neodymium (21%), praseodymium (6%), dysprosium (0.3%) and europium (0.4%) compared to most other rare earth deposits.



Marketing – Phosphoric Acid

Shortages of fertiliser across the globe have resulted in an increase in the phosphoric acid price to US\$450 per tonne. A significant contributor to the demand for fertiliser is coming from grain crops for ethanol production.

Phosphoric acid currently sells for about US\$400 per tonne but a rapid growth in the demand for phosphoric acid in farming and a restriction of supply have seen prices recently rise to above US\$560 per tonne.

Marketing – Calcium Chloride

Calcium chloride is extensively used across the globe for de-icing, dust suppression, road construction and drilling fluids (in oil and gas wells). The biggest potential market in Australia is dust suppression in mining operations where vast amounts of potable water are used to suppress dust from mining activity. In the civil industry, calcium chloride could be used as an additive to rural (dirt) road construction materials that assist the binding process and therefore can reduce road maintenance costs.

Marketing - Uranium

The uranium spot price reached US\$113 per pound during the period.

Exploration - Vanadium

Jervois (Unca) Fe-Ti-V, (100% ARU)

The Jervois project is located in the Jervois Range area 290 kilometres northeast of Alice Springs. A high-resolution airborne magnetic survey undertaken by Arafura in 2005 identified the potential for magnetite in an area approximately 10x8 kilometres in extent. The project contains scattered outcrops of magnetite that contain significant vanadium mineralisation.

Samples have been submitted to ALS-Chemex for the analysis of iron, titanium and vanadium, and to quantify magnetite recovery. The process has been slow due to the labour intensive nature of the magnetite separation and assay validation processes. Analytical results are expected to be available in mid-May despite the previous indication of March 2007. The Company has also engaged an independent expert with extensive knowledge in vanadium processing to examine the validity and context of the results and the likelihood for potential recovery of vanadium.

Initial results are promising and the Company is planning a follow-up program at Jervois dependent on the final assay results.



Exploration - Gold

Mt Porter, (100% ARU less royalty interests)

The Mt Porter project is located 12 kilometres from the Union Reefs processing facility owned by GBS Gold International Inc (GBS). It contains a small near-surface resource of 34,200 ounces of gold (ASX announcement, 1 April 2004).

Following the public exhibition period, the Mt Porter Public Environmental Review (PER) has been reviewed by the Northern Territory Environmental Protection Authority (EPA) Program and clarification issues have been dealt with through a supplementary submission. The environmental review process is now with the Federal Department of Environmental and Water Resources for final approval. Following this process, the Mt Porter project can begin the operational planning phase requiring the submission of Mine Management Plans (MMP) to the NT Department of Primary Industries, Fisheries and Mines.

Joint Ventures

Nickel

Hammer Hill JV with Mithril Resources Ltd

(100% ARU, Mithril earning up to 70% on the expenditure of \$5m over 5 years)

The Hammer Hill project is located 200 kilometres east northeast of Alice Springs. The area shows potential to host nickel sulphide mineralisation in mafic and ultramafic rock types.

Mithril Resources Ltd has defined areas for a detailed airborne (electromagnetic) geophysical survey. This survey is planned for the next quarterly period depending on airborne system availability. The aim of the survey will be to outline electrical conductors associated with sulphide mineralisation for subsequent drill testing.

Iron

Frances Creek Iron – Territory Iron Ltd (ARU royalty interest)

Frances Creek is located near Pine Creek, approximately 200 kilometres SSE of Darwin.

Progress has been made on the mine development to meet the shipping schedule for 2007. Arafura has commenced a due diligence review on the mine development, planning and production processes to ensure the optimal and correct royalties are being paid for the



extraction of iron ore from our tenements. Further review will occur once production of shipping ore commences.

Mining is currently scheduled to commence at Frances Creek in May 2007, with the first export shipment of iron ore from Darwin due in August 2007.

Arafura's royalty right (\$1.30 per tonne of lump ore and \$1.00 per tonne of fines ore shipped from the property) extends over 3.79m tonnes at 61.8% Fe of the Ore Reserves and 7.45m tonnes at 61.2% Fe of the Mineral Resources. Arafura has already received \$750,000 in royalty pre-payments from Territory Iron.

Royalty payments to Arafura will resume after the initial 600,000 tonnes are shipped to account for the pre-payments made by Territory Iron. Dependent on the start up date, production rates and the lump to fines ratio of ore, Arafura should receive royalty payments of between \$1m to \$1.5 m per annum from the Frances Creek operation from 2008.



ARAFURA RESOURCES LTD

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BOARD

Irvin (Mick) Muir
Alistair Stephens
Ian Kowalick
Terry Jackson
Gavin Lockyer

Chairman
Managing Director
Non-Executive Director
Non-Executive Director (appointed 27 April 2007)
Company Secretary/CFO

MANAGEMENT

Steven Mackowski
Richard Brescianini

GM – Projects & Operations
GM – Strategic Development & Exploration

SHARES & OPTIONS

Shares 120.2 million ordinary shares

Options 15.5 million (13cent) options. Expiry on 30 June 2008.

SHARE PRICE

The 90 day moving average share price for the relevant period was \$2.00 with a peak of \$2.65.

ASX Codes

ASX:ARU, ASX:ARUO



Appendix 5B

MINING EXPLORATION ENTITY QUARTERLY REPORT

ARAFURA RESOURCES LTD

ACN or ARBN

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Quarter ended ("current quarter")

31 March 2007

Consolidated statement of cash flows

	Current Qtr \$A'000	Year to Date (9 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors		
1.2 Payments for: (a) exploration and evaluation	(330)	(1,963)
(b) development		
(c) production		
(d) administration (inc rights & demerge)	(1,023)	(3,512)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	165	297
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other (provide details if material)		
Cost reimbursement		
GST Refund/(Paid)		
Net Operating Cash Flows	(1,188)	(5,178)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects		
(b) equity investments	(963)	(963)
(c) other fixed assets		(36)
1.9 Proceeds from sale of: (a) prospects		
(b) equity investments	281	281
(c) other fixed assets		
1.10 Loans to/from other entities	(361)	(361)
1.11 Loans repaid by other entities		
1.12 Other (provide details if material)		
Net Investing Cash Flows	(1,043)	(1,079)



1.13 Total operating and investing cash flows (carried forward)	(2,231)	(6,257)
1.13 Total operating and investing cash flows (brought forward)	(2,231)	(6,257)
Cash flows related to financing activities		
1.14 Proceeds from the issue of shares, options, etc.	224	14,233
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	(8,365)	(8,365)
Net financing cash flows	(8,141)	5,868
Net increase (decrease) in cash held		
1.20 Cash at beginning of quarter/year to date	(10,372)	(389)
1.21 Exchange rate adjustments	16,261	6,278
1.22 Cash at end of quarter	5,889	5,889

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	36
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



Demerger of Uranium assets to new listed entity – NuPower Resources. Full details disclosed in prospectus issued previously.

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	500
4.2 Development	-
Total	500

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	37	41
5.2 Deposits at call	5,852	16,220
5.3 Bank Overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (Item 1.22)	5,889	16,261



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	As disclosed in demerger prospectus			
6.2 Interests in mining tenements acquired or increased	As disclosed in demerger prospectus			

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	120,208,824	120,208,824		
7.4 Issued during Quarter	1,724,000	1,724,000	\$0.13	\$0.13
7.5 Convertible debt securities (description)				

7.6 Issued during quarter				
7.7 Options				
ARUO exp 30-6-08 (13c)	15,482,159	15,482,159		
ARUAY exp 30-6-08 (13c)	3,000,000	-		
ARUAA exp 30-6-09 (22c)	200,000	-		
ARUAI exp 30-6-09 (26c)	750,000	-		
ARUAK exp 30-6-09 (30c)	750,000	-		
Other exp 30-6-10 (75c)	500,000	-		
7.8 Issued during Quarter	500,000		75c	75c
7.9 Exercised during Quarter – ARUO	1,724,000	1,724,000	\$0.13	\$0.13
7.10 Expired during Quarter – ARUAA	-	-		
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:

Gavin Lockyer
Company Secretary

Date: 30/4/2007

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.
