



ARAFURA RESOURCES LTD

QUARTERLY REPORT

FOR THE PERIOD ENDED 30 June 2009

Highlights

Perth based specialty metals explorer Arafura Resources Ltd (ASX:ARU; “Arafura”) achieved the following outcomes for the quarter.

- ▲ Australian Foreign Investment Review Board (FIRB) approval for up to 25% strategic equity investment in Arafura by East China Mineral Exploration & Development Bureau (ECE)
- ▲ First placement of ECE investment completed for A\$8.5 million
- ▲ Independent experts review nearing completion for shareholder meeting in September to vote on second placement to ECE
- ▲ Pilot plant for technical grade phosphoric acid has been completed with indicative results on target for quality and recovery
- ▲ Calcium chloride pilot plant in operation at Bateman facilities in Israel
- ▲ Engineering design for chemical plant feasibility study is nearing completion. Mine site study has commenced.
- ▲ Chemical supply study to reduce operating costs and minimise the potential liability of an emissions trading scheme commissioned



CORPORATE

ECE Strategic Partnership

In May 2009 the Australian Government, through the Foreign Investment Review Board, approved an investment of up to 25% in Arafura by the Jiangsu Eastern China Non-Ferrous Metals Investment Holding Co. Ltd (JEC), a subsidiary of the East China Mineral Exploration and Development Bureau (ECE). The FIRB approval was required for ECE to acquire up to 25% interest in Arafura, through the acquisition of up to 60 million shares at prices up to A\$0.40 per share by way of two placements.

On 6 June 2009, Arafura and ECE signed a binding contract for the placement of Arafura shares to ECE under a Share Subscription Agreement (Agreement). On 10 June 2009, the initial placement of 28,333,333 shares at a share price of A\$0.30 was settled following the receipt of A\$8.5 million.

Under this Agreement, ECE will pay an additional A\$14.4 million to acquire a second tranche of Arafura shares (at a share price of A\$0.40). Completion of this transaction remains conditional to securing shareholder approval at an Extraordinary General Meeting (EGM) planned for September.

The transaction price of A\$0.40 represents approximately a 40% premium over the Arafura share price at the time the transaction was initially negotiated in February.

Arafura actively sought a suitable investment partner to fund work required to progress the feasibility study of the Nolans Project, its key asset, following the shortfall in a rights issue to shareholders in late 2008.

The Board assessed that a partnership with ECE would deliver both an equity investor and a technically strong strategic partner with a genuine intent to assist in the feasibility and development of the Nolans Project.

Subject to shareholder approval of the second placement to ECE, the funds received will be used to progress the Nolans Project's feasibility study. The Board believes that completion of the supplementary placement is important to Arafura maintaining the momentum to deliver all components of study as expediently as possible.

Arafura will hold a number of shareholder information events in Australia and Europe prior to the EGM to detail the company's plans, introduce key ECE personnel and answer shareholder questions.



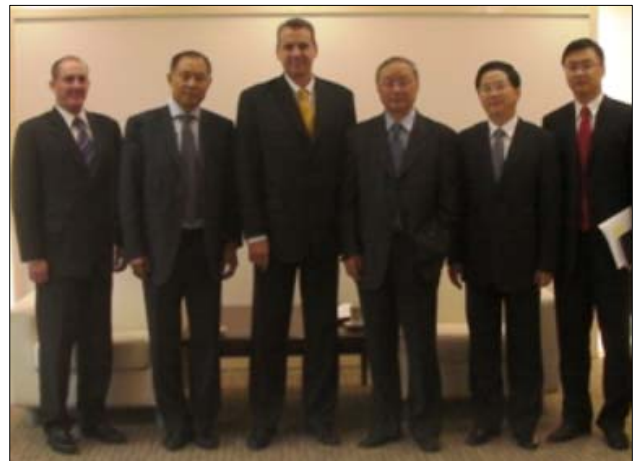
New Board Director Appointed

In accordance with the Share Subscription Agreement with ECE, the Arafura Board appointed Ms Shasha Lu as an Executive Director in July. Ms Lu's directorship follows her appointment to the Arafura management team as Executive Manager for Chinese Relations.

ECE provides Chinese Introductions

On a recent visit to China, ECE provided introductions to the Chinese Ministry of Commerce, Chinese chemical and nuclear companies, and experts in advanced rare earth materials technology.

ECE's Director General Mr Shao Yi, Deputy Director General Mr Xu, Arafura's Managing Director Mr Alistair Stephens, Executive Director Ms Shasha Lu and Company Secretary Mr Gavin Lockyer met with the Director General of the Chinese Ministry of Commerce Department of Outward Investment and Economic Cooperation, Mr Wu Xilin and Deputy Director General Mr Chen Yu. The meeting was cordial and friendly and provided a forum to discuss Arafura's plans to develop the Nolans Rare Earths Project and the strategic nature of ECE's investment in Arafura.



From left to right, Mr Lockyer, Mr Shao Yi, Mr Stephens, and from the Chinese Ministry of Commerce Director General Mr Wu Xilin, and Deputy Director General Mr Chen Yu

NOLANS – PROJECT DEVELOPMENT

Feasibility Study (DFS)

The current works program continues to focus on the chemical plant feasibility study. This study is progressing on schedule with the basic engineering expected to be completed by the end of 2009.



Attention in the second half of 2009 will focus on detailed assessment to identify the optimum location for the chemical processing facility. This will encompass the implications for capital and operating costs, waste disposal, regulatory environment and socio-economic demographics and will include Australia and Asian countries (that are signatories to the Australian Federal Government's nuclear non-proliferation policy).

During the quarter, Arafura made the decision to commission a detailed review by Chinese technical specialists in rare earths processing to validate all pilot plant studies. This review will help define the optimal processing functions, by comparing proposed processes against the most advanced and efficient Chinese technology, and is aimed at minimising capital and operating costs and maximising rare earths recovery rates.

While mine site engineering and environmental studies have commenced, with preferred tenders identified and detailed environmental studies underway. Work is currently behind schedule and is now expected to be completed during 2010.

Consultation continued with traditional indigenous owners and the Central Land Council on the terms of the proposed mining agreement.

The delay to some elements of the DFS, primarily due to the difficulty in acquiring funds to maintain the pace of all programs, has resulted in Arafura revising the development timetable.

2009

Complete chemical plant design; optimum plant location study and site selection.

Progress mine site engineering and environmental studies; assess hydrochloric recovery program and Emission Trading Scheme impact.

2010

Commence environmental studies for processing plant site and complete Bankable Feasibility Study and project financing.

2011/12

Secure regulatory approvals, commence procurement and construction.

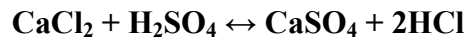
Every effort will be made to recover lost ground once funding security is restored following the September EGM.



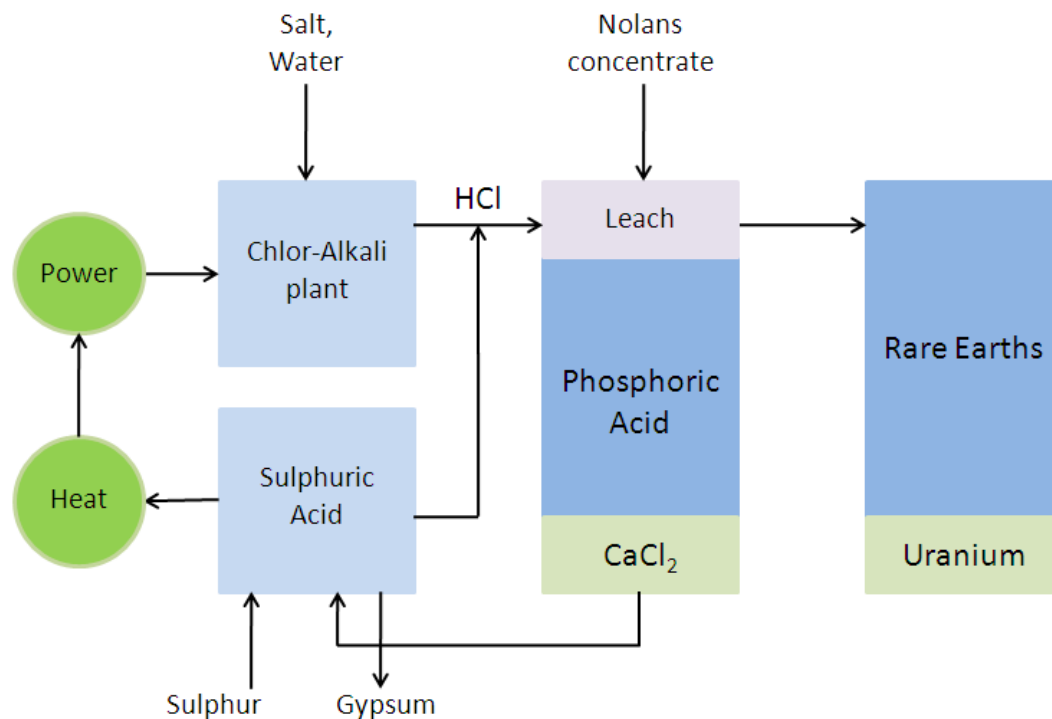
Project development

Final work on technical grade phosphoric acid has been completed. Calcium chloride production is well advanced at the Bateman laboratories in Israel. All results confirm expectations with data feeding into the plant feasibility mass balances accordingly. Phosphoric acid recovery and quality have both been improved.

Following the calcium chloride test work and the possibility of an Emissions Trading Scheme (ETS) in Australia, Arafura has determined that further test work should be completed to define optimum plant feed (chemical supply) conditions. Arafura will conduct a study and test work to consider treating calcium chloride with sulphuric acid to produce a gypsum waste and recirculated hydrochloric acid.



If successful, this work will quantify a significant reduction in the size of a chlor-alkali plant for hydrochloric acid supply and justify the construction of a sulphuric acid plant. The heat generated by a sulphuric acid plant can be used to generate electrical power for operating plants. This reduces the total plant's power draw and significantly reduces the operation's carbon footprint. The simplified flow sheet for this design is shown below.





MARKETING

Industry activity

The Jiangxi Provincial government has implemented a new financing policy in conjunction with the provincial banks, allowing rare earths producers to source finance using their product(s) as security. It is expected to improve access to finance for producers.

It is anticipated that China may reduce production quotas of rare earths and will stop issuing exploring licences for rare earths, tungsten and antimony until 30 June 2010, as stated in an announcement by the Ministry of Land and Resources. In an effort to influence price, the quota for rare earths production has been reduced by a further 6 percent.

- In May 2009, China announced the introduction of a 43,000 RMB subsidy to buyers of hybrid cars in the south-west city of Chongqing. This is in addition to the central government's February announcement for subsidies for clean-energy vehicles for public fleets in 13 cities. Both initiatives are evidence of the policy of developing green technologies in the auto industry and are likely to increase the domestic consumption of rare earths in China.
- British Transport Secretary Geoff Hoon recently announced the introduction of a new British Government eco motoring incentive by which purchasers of electric hybrid vehicles will be eligible for a £5000 (\$7500/€600) rebate. It will be available from 2011 and will apply to both hybrid and electrically powered cars. The incentive is part of a US\$500-million scheme to cut emissions and at the same time help the struggling UK motor industry.
- US President Barack Obama unveiled a US\$2.4 billion boost for electric vehicle development, vowing to compete with foreign nations in the race to be world leader on renewable energy. President Obama said the money would be used to develop next generation plug-in hybrid electric vehicles and advanced battery components and would create tens of thousands of US jobs and reduce reliance on foreign oil. He set a target of one million environmentally friendly vehicles on US roads by 2015. The plan would also give a US\$7,500 tax credit to people who buy plug-in hybrid vehicles.

Rare earth prices

Rare earth pricing has remained virtually unchanged into March, and trading volumes were low in April. This was due in part to a significant reduction in production from primary ore producers and lackluster demand.



Many short term financial incentives across the world are focused on infrastructure projects. Incentives for products that rely on rare earths are longer term.

While the short term outlook for rare earths remains robust, the longer term outlook is extremely bullish (especially neodymium and praseodymium) as the demand for hybrid cars and other energy efficient products rely on rare earth products.

According to Industrial Minerals, consumers have continued to de-stock and withheld placing new rare earth (REO) orders in the hope that the first half product quota would flood the market pressuring lower prices. This did not happen and the quota passed the termination date and expired.

Chinese producers reacted by curtailing production and in some cases completely ceasing production. It is predicted that stocks will be significantly depleted by the second half of 2009 allowing for price improvements and the return to 2008 prices.

The table below compares prices for the same period last year.

REO	2008				2009				
	April	May	June	Q2	Dec	April	May	June	Q2
Lanthanum Oxide	\$7.95	\$8.40	\$9.25	\$8.47	\$7.75	\$6.00	\$5.65	\$5.65	\$5.77
Cerium Oxide	\$4.05	\$4.25	\$4.70	\$4.40	\$4.25	\$4.55	\$4.55	\$4.55	\$4.55
Praseodymium Oxide	\$34.00	\$31.90	\$31.00	\$25.83	\$14.60	\$14.25	\$14.25	\$14.25	\$14.25
Neodymium Oxide	\$33.75	\$32.25	\$31.25	\$26.03	\$14.60	\$14.35	\$14.25	\$14.25	\$14.28
Samarium Oxide	\$4.50	\$4.50	\$4.50	\$4.50	\$4.50	\$4.50	\$4.50	\$4.50	\$4.50
Europium Oxide	\$485.00	\$480.00	\$480.00	\$480.00	\$480.00	\$460.00	\$460.00	\$460.00	\$460.00
Gadolinium Oxide	\$10.25	\$10.25	\$10.25	\$9.42	\$7.75	\$6.75	\$6.75	\$6.75	\$6.75
Dysprosium Oxide	\$120.00	\$118.00	\$117.00	\$113.33	\$105.00	\$105.00	\$105.00	\$105.00	\$105.00
Terbium Oxide	\$730.00	\$730.00	\$730.00	\$633.33	\$440.00	\$350.00	\$350.00	\$350.00	\$350.00
Yttrium Oxide	\$16.25	\$16.25	\$16.25	\$15.92	\$15.25	\$15.25	\$15.25	\$15.25	\$15.25
Lanthanum Metal	\$13.00	\$13.00	\$13.25	\$12.58	\$11.50	\$10.00	\$9.70	\$9.65	\$9.78
Neodymium Metal	\$43.00	\$42.25	\$41.50	\$34.33	\$19.25	\$18.25	\$18.75	\$18.75	\$18.58
Mischmetal (Low Zn/Mg)	\$15.00	\$15.00	\$15.00	\$14.58	\$13.75	\$11.25	\$11.25	\$11.25	\$11.25
RE Carbonate	\$4.85	\$4.85	\$4.85	\$4.57	\$4.00	\$3.55	\$3.75	\$3.60	\$3.63

Note: Source for prices is metal pages© 2. Prices have been rounded

Phosphoric acid

In light of on-going credit issues in South America (a significant global consumer of phosphate based fertilisers), import forecasts for the remainder of 2009 have been revised down by market analysts.



Phosphate prices have subsequently remained steady or slightly decreased since the first quarter of 2009. It is predicted that phosphoric acid prices will move to approximately US\$580 per tonne (cfr India) for the third quarter 2009 and could slip further to about US\$530/t by the beginning of next year.

However, in the long term, lower prices are expected to attract buyers to the market – especially for agricultural applications where there is a risk of lower yields due to thinner application in the previous months. Additionally, lower inventories point to a period of “fill-buying” in the near future.

Future Activities

Arafura considers the following are priority activities for the next quarter:

- Conduct shareholder EGM to ratify the initial share placement to ECE and secure approval for the second placement.
- Progress the Jervois joint venture negotiations with ECE.
- Progress the optimum chemical plant location study for the Nolans Project.
- Commencement of on-ground exploration in the Reynolds Range (SEL 23671 and EL 23571), targeting apatite-hosted rare earth mineralisation.



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BOARD

Ian Laurance	Chairman
Irvin (Mick) Muir	Director
Ian Kowalick	Director
Terry Jackson	Director
Steve Ward	Director
Shasha Lu	Director
Alistair Stephens	Managing 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
Shasha Lu	EM – Chinese Relations

SHARES & OPTIONS

Shares 223.1 million ordinary shares

ASX CODE

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 specialise in rare earths products and their markets.

GROWTH – DEVELOPMENT

Arafura's primary focus is the development of its Nolans rare earths-phosphate-uranium project. The deposit has a resource to sustain a mine life of over 30 years and Arafura has developed a processing flowsheet that optimises the extraction of rare earths, phosphoric acid and uranium.

GROWTH – EXPLORATION

Long term sustainable development and the creation of shareholder wealth can also be realised through exploration success. Arafura has exploration projects in rare earths, gold, base metals and iron-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

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Quarter ended ("current quarter")

30 June 2009

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	-	-
1.2 Payments for: (a) exploration and evaluation	(1,731)	(10,921)
(b) development	(123)	(5,908)
(c) production	-	-
(d) administration	(986)	(5,120)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	49	330
1.5 Interest and other costs of finance paid	(3)	(19)
1.6 Income taxes paid	-	-
	(2,794)	(21,638)
Net Operating Cash Flows		
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	(507)	(507)
(c) other fixed assets	53	(363)
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to/from other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
	(454)	(870)
Net Investing Cash Flows		
1.13 Total operating and investing cash flows (carried forward)	(3,248)	(22,508)



1.13 Total operating and investing cash flows (brought forward)	(3,248)	(22,508)
Cash flows related to financing activities		
1.14 Proceeds from the issue of shares, options, etc.	8,942	19,083
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	3	(286)
Net financing cash flows	8,945	18,797
Net increase (decrease) in cash held		
1.20 Cash at beginning of quarter/year to date	5,417	14,825
1.21 Exchange rate adjustments	-	-
1.22 Cash at end of quarter	11,114	11,114

**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	112
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

Nil



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	20,000	Nil

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	6,978
4.2 Development	-
Total	6,978

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	203	26
5.2 Deposits at call	10,911	5,391
5.3 Bank Overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (Item 1.22)	11,114	5,417



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	EL9745	Lease	138 blocks	Nil
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	223,113,979	223,113,979		
7.4 Issued during Quarter	100,000 750,000 29,083,333	100,000 750,000 29,083,333	\$0.22 \$0.26 \$0.30	\$0.22 \$0.26 \$0.30
7.5 Convertible debt securities (description)				
7.6 Issued during quarter				



7.7 Options

ARUAB exp 30-6-10 (75c)
 ARUAC exp 30-6-11 (\$1.60)
 ARUAI exp 31-12-13 (85c)
 ARUAM exp 30-6-11 (\$1.72)
 ARUAO exp 31-12-12 (\$1.19)
 ARUAS exp 30-06-11 (\$1.31)
 ARUAZ exp 30-06-11 (\$1.70)

500,000	-		
100,000	-		
4,500,000	-		
820,000	-		
11,640,000	-		
300,000	-		
200,000	-		
4,500,000	-	\$0.85	-
100,000	-	\$0.22	\$0.22
750,000	-	\$0.26	\$0.26
750,000	-	\$0.30	\$0.30
130,000	-	\$1.72	-
410,000	-	\$1.19	-

7.8 Issued during Quarter

7.9 Exercised during

7.10 Expired during

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: 31/07/09



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.
