

Quarterly Activities Report and Appendix 5B






For the period
ending
30 June 2013

ASX: ARU



**AN EMERGING
RARE EARTHS
PRODUCER
FOR USERS
WORLDWIDE**

HIGHLIGHTS

-  **Cost reduction measures ongoing – savings of around A\$400 million identified through re-location of intermediate chemical processing and rare earths separation; further material savings anticipated**
-  **Chinese Optimisation Program progressing well – encouraging results from preliminary testing of composite material**
-  **Termination of Whyalla Land Contract**
-  **Positive developments in rare earths supply agreements**
-  **Organisational restructure and remuneration review leads to potential savings of A\$350,000 per annum**

NOLANS PROJECT

TARGETED COST REDUCTION MEASURES ONGOING

Arafura continues to target total Nolans Project capital cost reductions of between A\$500 million and A\$1,000 million, and material reductions in operating costs.

A large portion of capital costs savings (around \$A400 million) is expected to come from the relocation of intermediate chemical processing from Whyalla to the Nolans Bore Mine site and through the potential relocation of rare earths separation alongside a suitable chemical precinct which can offer “over the fence” access to reagents and other cost competitive advantages. Potential sites are currently being assessed.

The Company is confident that there are further capital cost savings to be made from the Project and will continue to pursue and assess these initiatives in the coming months.

CHINESE OPTIMISATION PROGRAM

The Technical Review and Optimisation Program with Chinese rare earths experts is well underway. Initial beneficiation tests and results have been encouraging.

During the quarter, composite Nolans Bore material that is anticipated to be representative of the first five years of production was delivered to China. Results from initial beneficiation tests have been encouraging, both confirming and, in some cases, improving on Arafura’s previous results.

These tests are preliminary; however it is possible that enhanced rare earth concentrate grades may result from a re-configuration of the current beneficiation circuits. Further

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examination will be undertaken over the coming months as part of the Optimisation Program.

A more detailed scope of work and timetable for flow sheet optimisation and technical feasibility is currently being reviewed and is expected to be confirmed over the coming weeks.

Material reductions in capital and operating costs are expected to be identified through this Program as key unit processes and circuits in the Base Case flow sheet are optimised, and synergies with established Chinese rare earths beneficiation, hydrometallurgical and separation technologies are identified and adopted.

TERMINATION OF WHYALLA LAND CONTRACT

During the quarter a decision to terminate the Contract for Sale and Purchase of Land in Whyalla, South Australia, was made following a comprehensive review, primarily of transport and logistics costs, by the Company.

During this review it became evident that the Whyalla site was no longer required to facilitate the needs of the Project and that the Company believed it unlikely that any benefit could be retained by continuing with the purchase agreement.

DEMONSTRATION PROGRAM

Following the successful operation of the demonstration facility at ANSTO, the downstream part of the plant has been decommissioned and deconstruction is now underway. The sulphation kiln and associated materials handling and gas cleaning equipment will remain installed at ANSTO in the event that Arafura wishes to sulphate and process material on a larger scale in the future.

POSITIVE DEVELOPMENTS IN RARE EARTHS SUPPLY AGREEMENTS

During the quarter, Board representatives and Arafura's Sales and Marketing Manager met with ThyssenKrupp in Germany to discuss the progress of the Nolans Project and to reaffirm the relationship between the two companies. Arafura continues to develop the off-take agreement with ThyssenKrupp and a pricing framework.

Whilst in Germany, the opportunity was taken to meet with key industrial end users of rare earths products, many of which are liaising with ThyssenKrupp for potential supply distribution to secure critical material supply for their businesses. Increasingly Arafura is viewed as a key supplier of critical rare earths.

A letter of extension regarding the non-binding MOU signed with a large South Korean multinational (ASX: ARU 7/5/12) was executed during the quarter.

Confirmation was received during the quarter that samples of Arafura's rare earths products sent to South Korea have met the Korean regulator's importation specifications. This will now be incorporated into the site selection study for Arafura's Rare Earths Separation facility.



The ability to produce five separated high-purity rare earth oxide (“REO”) products is still a major point of difference between Arafura and other rare earth projects currently being considered for development in Australia and elsewhere around the world.

Product development discussions will continue with the Chinese rare earths experts in the coming months. An expansion to the current suite of five separated REO products may be considered if it is economic to do so.

EXPLORATION

AILERON – REYNOLDS (REEs, water, extractive minerals)

Following the recent identification of a potentially extensive aquifer system, the Company acquired and had re-processed a comprehensive coverage of open-file airborne EM surveys covering approximately 6,000 km² of shallow sedimentary basins to the south and west of Nolans Bore. These data lay the foundation for the Company’s systematic evaluation, including targeted drilling, of these basins for sustainable water resources, and the selection of the most productive locations for borefield/s to support mining and processing operations at Nolans Bore.

MT PORTER – FRANCES CREEK (Au)

In June 2013, Ark Mines Limited (“Ark”; ASX: AHK) advised of its initial plans to explore and develop the Mt Porter-Frances Creek Gold Project in the Northern Territory as part of its Mining, Farm-in and Joint Venture agreement obligations.

At Mt Porter, Ark’s plans include 160 metres of diamond core drilling and metallurgical test work in an effort to improve gold recoveries.

At Frances Creek, Ark is targeting shallow oxide gold resources in a limited program of drilling (900 metres in 40 RC holes) and costeaning.

YALYIRIMBI (Fe)

Ferrowest Limited (“Ferrowest”; ASX: FWL) advised in May 2013, that following a period of successful due diligence, it was proceeding with the completion of a Sale and Purchase Agreement with private company Ngalia Resources Pty Ltd (“Ngalia”) to acquire Ngalia’s right to earn up to a 60% interest in Arafura’s iron ore rights on the Yalyirimbí Project (EL 24548). Furthermore, Ferrowest advised that it would take up a proposed joint venture with Arafura to develop Yalyirimbí.

CORPORATE

INTELLECTUAL PROPERTY PROTECTION

Arafura's shareholders have committed significant funds over a number of years to develop substantial intellectual property ("IP") surrounding the extraction of Rare Earths, and the Company will protect this property should it be threatened.

Arafura brought proceedings (and effected search orders) to recover confidential information containing Arafura's IP from a former Arafura employee. Arafura was successful in recovering the confidential information, and the legal proceedings against the former employee finally concluded during the last quarter. A Deed of Settlement and Release containing confidential terms has been entered into with the former employee. The Company is satisfied it has taken all reasonable steps to protect its IP.

ORGANISATIONAL RESTRUCTURE AND REMUNERATION REVIEW

On 18 July 2013 the Company announced the appointment of Mr Gavin Lockyer to the position of Chief Executive and Managing Director. Mr Lockyer was previously Arafura's CFO and Company Secretary.

In addition, the Company has undergone a restructure and remuneration review, including the implementation of a Short Term and Long Term Employee Incentive Scheme. As part of the restructure, various roles within the Company have been redefined or made redundant. Following completion of this restructure and remuneration review, the Company anticipates estimated savings of around A\$350,000 per annum.

OUTLOOK

Arafura is committed to keeping Nolans Project costs to a minimum. The Company continues to pursue initiatives which aim to reduce capital costs and enhance the overall funding of the Project.

As at the end of June, Arafura has cash reserves in excess of A\$32 million. With these funds in hand, Arafura is confident that it can advance the development of the Nolans Project towards financing and commercialisation.

The Project's advanced position is a key point of difference over other rare earth development projects, both in Australia and elsewhere in the world. The Company has a clear plan that significantly de-risks the path to production.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/01, 01/06/10.

Name of entity

ARAFURA RESOURCES LIMITED

ABN

22 080 933 455

Quarter ended ("current quarter")

30 June 2013

Consolidated statement of cash flows

Cash flows related to operating activities		Current Quarter \$A'000	Year to date (12 months) \$A'000
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for (a) exploration & evaluation	(3,044)	(12,917)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(1,125)	(4,998)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	492	1,248
1.5	Interest and other costs of finance paid	(12)	(14)
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)*	-	22,538
Net Operating Cash Flows		(3,689)	5,857
Cash flows related to investing activities			
1.8	Payment for purchases of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(500)	(3,053)
1.9	Proceeds from sale of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	-	-
Net investing cash flows		(500)	(3,053)
1.13	Total operating and investing cash flows (carried forward)	(4,189)	2,804

+ See chapter 19 for defined terms.

1.13	Total operating and investing cash flows (brought forward)	(4,189)	2,804
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	-	9,959
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other – Capital Raising Expenses	-	(194)
	Net financing cash flows	-	9,765

	Net increase (decrease) in cash held	(4,189)	12,569
1.20	Cash at beginning of quarter/year to date	36,287	19,546
1.21	Exchange rate adjustments to item 1.20	85	68
1.22	Cash at end of quarter	32,183	32,183

*R&D Tax Incentive Rebate received

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 Quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	(137)
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

Salaries, fees, superannuation and consulting services at standard commercial rates.

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

+ See chapter 19 for defined terms.

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	2,698
4.2 Development	-
4.3 Production	-
4.4 Administration	1,997
Total	4,695

Reconciliation of cash

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

	Current Quarter \$A'000	Previous Quarter \$A'000
5.1 Cash on hand and at bank	3,954	3,509
5.2 Deposits at call	28,229	32,778
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	32,183	36,287

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1		Interests in mining tenements relinquished, reduced or lapsed		
		Interests in mining tenements acquired or increased		

+ See chapter 19 for defined terms.



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.

		Total number	Number quoted	Issue price per security (see note 3)	Amount paid up per security (see note 3)
7.1	Preference securities (description)				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	+Ordinary securities	441,270,644	441,470,664		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5	+Convertible debt securities (description)				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	Options			<i>Exercise price</i>	<i>Expiry date</i>
	ARUAI	2,400,000	-	\$0.85	31-12-13
	ARUAK	850,000	-	\$0.75	20-07-13
	ARUAQ	750,000	-	\$0.98	31-08-13
	ARUAY	750,000	-	\$1.08	14-09-13
	ARUAU	1,400,000	-	\$0.96	16-07-14
	ARUAM	700,000	-	\$0.81	31-12-14
	ARUAW	1,750,000	-	\$0.70	24-11-14
		2,058,000		\$0.23	31-12-15
7.8	Issued during quarter				
7.9	Exercised during quarter				

+ See chapter 19 for defined terms.



7.10	Expired during quarter	300,000	-	\$0.85	31-12-13
7.11	Debentures (totals only)				
7.12	Unsecured notes (totals only)				

Compliance 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: 30 July 2013

Print name: Peter Sherrington
(Company Secretary)

Notes

1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An 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 the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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