

Quarterly Activities Report and Appendix 5B








For the period ending 31 December 2012

ASX: ARU



AN EMERGING RARE EARTHS PRODUCER FOR USERS WORLDWIDE

HIGHLIGHTS

-  **World scale and independently verified maiden JORC Ore Reserve for the Nolans Rare Earth Project**
-  **Fifth Rare Earth Oxide (Lanthanum Oxide) separated to 99% purity**
-  **Solid progress in feasibility work streams**
-  **Chinese rare earths experts approached to assist with achieving technical process and design efficiencies and cost reductions**
-  **Settlement of A\$10 million placement to strategic partner and major shareholder, ECE**
-  **Tax Refund of A\$22.5 million received for FY12 R&D spend**
-  **Farm-in agreement executed with Rox Resources Limited (ASX:RXL) to explore Bonya Copper Project.**

SUMMARY

NOLANS RARE EARTHS PROJECT – MAIDEN “WORLD-SCALE” JORC ORE RESERVE

On 11 December 2012, Arafura announced a maiden JORC Ore Reserve for its 100 per cent-owned Nolans Rare Earths Project. (ASX: ARU 11/12/12).

The Ore Reserve has been independently prepared by AMC Consultants Pty Ltd and represents that part of the Nolans Bore Mineral Resource that can be economically mined by open pit methods. Based on a maximum beneficiation throughput of 1.1 million tonnes per annum, the Ore Reserve supports a mine life of 22 years and has a 95% conversion rate of Measured and Indicated Resources to Ore Reserves.

Ore Reserves at Nolans Bore are estimated to be:

RESERVES	TONNES (million)	RARE EARTHS REO %	TONNES REO	PHOSPHATE P ₂ O ₅ %	TONNES P ₂ O ₅	URANIUM U ₃ O ₈ lb/t	TONNES U ₃ O ₈
Probable	24	2.8	672,000	12	2,976,000	0.45	4,900

ARAFURA RESOURCES LIMITED

arafura@arafuraresources.com.au www.arafuraresources.com.au ABN 22 080 933 455

PERTH: Level 5/16 St Georges Tce, Perth WA 6000 | PO Box 5773, St Georges Terrace, Perth WA 6831 T: +618 6210 7666 F: +618 9221 7966

DARWIN: 18 Menmuir St, Winnellie NT 0820 | PO Box 37220, Winnellie NT 0821 T: +618 8947 5588 F: +618 8947 5599

WHYALLA: Unit 18, 11 Darling Tce, Whyalla SA 5600 | PO Box 511, Whyalla SA 5600 T: +618 8645 5509 F: +618 8645 1856

In addition, Arafura has identified 21 million tonnes of Inferred Resources at Nolans Bore that could be converted to additional Ore Reserves with further drilling to improve the confidence in these resources. Large parts of the resource remain open at depth.

The establishment of a world-scale JORC Ore Reserve represents another key milestone for the Company and its flagship Nolans Project. It further validates the advanced stage of the Nolans Project and brings it one step closer to commercialisation.

FIFTH RARE EARTH OXIDE – LANTHANUM OXIDE SEPARATED to 99% PURITY

On 24 January 2013, Arafura announced the achievement of another major milestone by producing a fifth separated rare earth oxide product, Lanthanum Oxide (**Lanthanum** or **La₂O₃**).

The successful separation of Lanthanum completes Arafura's goal of developing five individual separated oxide products for initial commercialisation of the Nolans Project.

This novel separation of Lanthanum follows the successful production of four other samples of Rare Earth Oxide (REO) products from the Nolans Bore resource in 2012 (ARU: ASX 17/1/12 & 6/6/12):

- Cerium Oxide
- Nd/Pr Oxide: Didymium Oxide (Nd+Pr)
- SEG Oxide: 'Mids' Rare Earth Oxide (Sm+Eu+Gd)
- HRE Oxide: 'Heavy' Rare Earth Oxide (Tb+Dy+Ho+Er+Tm+Yb+Lu+Y)

Initial customer feedback confirms that these products are to the defined specifications.

The production of the fifth and final product at pilot scale provides further opportunity for the Company to engage potential customers for this high volume product.

The ability to produce these five separated oxide products is a major point of difference between Arafura and other rare earth projects currently being considered for development in Australia and elsewhere around the world.

PROGRESS IN FEASIBILITY WORK STREAMS

Further progress has been made on the Base Case Feasibility work streams during the December quarter. This includes:

- Commissioning of the sulphation demonstration plant
- Progress on proving up the beneficiation circuit
- Off-take negotiations with potential customers
- Continuing work on baseline studies to support the Project Environmental Impact studies
- Completion of option studies to assess process improvements
- Information Memorandum drafted for potential investors and financiers

The process flow sheet and mass balance, as well as the major recycle circuits, will be validated by an Integrated Pilot Plant ("IPP") planned to be constructed this year. The IPP results will also be used support Arafura continuing to look at options and opportunities to improve and benefit the Project, its economics and the final engineering design of the Project.





ENVIRONMENTAL, HEALTH, SAFETY AND COMMUNITY

The Northern Territory Government approved Arafura's request to extend the time period for submission of the draft Environmental Impact Statement for Nolans Bore until December 2014. The guidelines have been subject to a minor update as a result of policy and process changes since their issue in 2010.

Individual baseline environmental studies for the Whyalla site have progressed to the report production stage for the initial study areas, in preparation for wider consultation and stakeholder engagement. The field study programs to date continue to yield results in line with the background expectations and have not highlighted any significant issues that could impact the development of the Project at the two sites.

Arafura has maintained its community profile, presence and accessibility during the quarter and has engaged with a range of stakeholders both in the Northern Territory and South Australia.

TECHNICAL REVIEW AND OPTIMISATION PROGRAM

Through introductions provided by ECE, The Company engaged with Chinese rare earth experts regarding a technical review and optimisation program for the Project. The objective is to access Chinese rare earths expertise that may assist and facilitate process flow sheet and design efficiencies and achieve reductions in capital and operating costs.

Meetings in January will be followed by more detailed technical discussions scheduled in February following the Chinese New Year holidays.

SETTLEMENT OF A\$10M PLACEMENT

In November, the share subscription agreement announced in June (ASX: ARU 19 June 2012) between major shareholder ECE Nolans Investment Company Pty Ltd ("ECE") and Arafura was completed. Arafura received cash of A\$9,958,630 and issued 45,266,500 fully paid ordinary shares at an issue price of A\$0.22 per share.

The price represents a 29% premium over the Company's last trading day's closing price and a 10% premium over the 15 day VWAP of A\$0.20 at the time the transaction was agreed.

The transaction was approved by the Australian Government through the Foreign Investment Review Board and authorities in the People's Republic of China. It was also strongly supported by shareholders at the EGM held on 18 October 2012.

ECE returned to a strategic equity holding of 24.86% in the Company as per its original agreement with Arafura signed in 2009.

ECE's ongoing commitment to Arafura - via financial and strategic support - confirms its confidence in the Nolans Project and in the Company's Board and Management. Both parties are committed to developing and funding Arafura's flagship project in a way that limits shareholder dilution and delivers outstanding returns over the long term.

RESEARCH AND DEVELOPMENT TAX REFUND

In October, Arafura received A\$22.5 million as a tax refund for eligible research and development (“R&D”) expenditure in relation to the development of the Nolans Project. The R&D Tax Incentive is an Australian Government program assisting businesses to offset a portion of costs relating to eligible R&D activities and innovation. It aims to boost competitiveness and improve productivity across the Australian economy as well as encourage R&D activities that may not otherwise have been conducted. Arafura has invested heavily in R&D in order to define and develop rare earths production processes over a number of years, and these activities continue to be eligible under the scheme.



EXPLORATION

JERVOIS (Fe-V-Ti)

Arafura executed a farm-in agreement with Rox Resources Limited (“Rox”) during October that enables Rox to acquire up to 70% of the exploration and development rights to base and precious metals (Cu, Pb, Zn, Au, Bi, Ag, PGEs) on ELs 10215 and 26812 (now amalgamated under EL 29701 – granted during the quarter). The terms of the agreement include Rox spending:

- A minimum of \$150,000 in the first year before Rox can withdraw;
- \$500,000 in the first two years to earn 51% of the rights, whereupon a JV is formed between the parties; and
- An additional \$1,000,000 during the subsequent two years to acquire 70% of the rights.

CORPORATE

STRATEGY

Arafura aims to be a leading producer of Rare Earths for users worldwide and its exploration and development program to grow its position in Rare Earth projects beyond the Nolans Project. The Company will specialise in Rare Earths products and their markets.

GROWTH – DEVELOPMENT

Arafura's primary focus is to develop its 100%-owned Nolans Rare Earths Project. The Nolans Bore 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, phosphate and uranium. The Company expects to improve on this flow sheet prior to finalising its Feasibility Study.

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 exploration opportunities that are consistent with growth beyond the Nolans Project.

ARAFURA STRENGTHENS ITS BOARD

Arafura recently announced the appointment of Mr Terence (Terry) Grose (B.Ec, MBA) as an Independent Non-Executive Director of the Company with effect from 21 January 2013 (ASX: ARU 21/1/13). Mr Grose has a strong commercial background gained over 30 years as a senior business executive, consultant and director, in Australia and internationally. He has held various senior management positions in Wesfarmers and was the General Manager of International Business Development for a number of years. As well as establishing his own business, Mr Grose has held director positions with a number of companies.

The appointment of Mr Grose comes at an important phase for the Company.

OUTLOOK

Arafura remains well positioned to become a one of the world's leading rare earths producers this decade. The establishment of a world-scale JORC Ore Reserve further reinforces the commercial appeal of the Nolans Project. Notably the Nolans Project is one of a very small number of rare earth projects anywhere in the world that has established an Ore Reserve.

An expected Rare Earths supply shortfall within the next decade, particularly in Neodymium, is likely to coincide with Arafura's production and commercialisation pathway, while the growing demand for Rare Earths in the green technology sector is expected to drive the Company's sales.

Arafura is well-placed to capitalise on the market opportunity with the Nolans Project. The Project's advanced position is a key point of difference over other Rare Earth development projects and the Company has a clear way forward to develop the Nolans Project that significantly de-risks the path to production and commercialisation.



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")

31 December 2012

Consolidated statement of cash flows

		Current Quarter \$A'000	Year to date (6 months) \$A'000
Cash flows related to operating activities			
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for (a) exploration & evaluation	(2,011)	(4,489)
	(b) development	(1,250)	(2,007)
	(c) production	-	-
	(d) administration	(1,456)	(2,725)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	191	395
1.5	Interest and other costs of finance paid	-	(1)
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)*	22,538	22,538
		18,012	13,711
Net Operating Cash Flows			
Cash flows related to investing activities			
1.8	Payment for purchases of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	(2,007)	(2,047)
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)	-	-
		(2,007)	(2,047)
Net investing cash flows			
1.13	Total operating and investing cash flows (carried forward)	16,005	11,664

+ See chapter 19 for defined terms.
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1.13	Total operating and investing cash flows (brought forward)	16,005	11,664
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	9,959	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	(189)	(193)
Net financing cash flows		9,770	9,766
Net increase (decrease) in cash held		25,775	21,430
1.20	Cash at beginning of quarter/year to date	15,182	19,546
1.21	Exchange rate adjustments to item 1.20	5	(14)
1.22	Cash at end of quarter	40,962	40,962

*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	(180)
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

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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	7,238
4.2 Development	4,188
4.3 Production	-
4.4 Administration	2,120
Total	13,546

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	3,181	5,182
5.2 Deposits at call	37,781	10,000
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	40,962	15,182

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	EL 10215	Lease	71 blocks	Nil
	EL 26812	Lease	18 blocks	Nil
	EL 27335	Lease	25 blocks	Nil
	EL 27336	Lease	18 blocks	Nil
Interests in mining tenements acquired or increased	EL 29227	Lease	Nil	17 blocks
	EL 29701	Lease	Nil	89 blocks

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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.

	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	45,266,500	45,266,500	\$0.22	\$0.22
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	2,700,000	-	\$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
7.8 Issued during quarter				
7.9 Exercised during quarter				

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7.10	Expired during quarter	1,100,000	-	\$1.19	31-12-12
		1,100,000	-	\$1.54	26-11-13
		400,000	-	\$0.70	24-11-14

7.11	Debentures <i>(totals only)</i>		
7.12	Unsecured notes <i>(totals only)</i>		



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: 31 January 2013

Print name: Gavin Lockyer
(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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+ See chapter 19 for defined terms.
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