Quarterly Activities Report and Appendix 5B

For the period ending 30 June 2011

ARAFURA RESOURCES LIMITED

AN EMERGING RARE EARTHS PRODUCER FOR USERS WORLDWIDE

Highlights

- **Whyalla Rare Earths Complex site secured.**
- **EIS guidelines released for Whyalla Rare Earths Complex. Work ongoing.**
- **Scope for Nolans Project Bankable Feasibility Study expanded.**
- **Price for Nolans Rare Earth Oxide mix surpasses US$208/kg.**
- **A key Technology Program work stream successfully completed.**
- **Major drill program continues at Nolans**
- **Discussions with target customers in progress**
- **Arafura joins REE World Advisory Board.**

CORPORATE

On 1 July, Arafura was pleased to announce the execution of a sale and purchase agreement for approximately 800 hectares of land in Whyalla, South Australia, the location of Arafura's Rare Earths Complex site.

This marks an important milestone for Arafura. Very few potential rare earth producers hoping to come into production in the near term have such an appropriate quantity of land, in close proximity to established infrastructure, in a low sovereign risk country.

On 23 June, the Company announced an expansion in scope of the Nolans Project Bankable Feasibility Study (BFS) and an extension of its completion date. The Company intends to re-visit the role of corporate and financial advisor over the next few months now that the expanded BFS scope has been identified.

Work in defining the optimal capital structure for the Company is on-going and discussions with targeted customers will help determine this.

The Company at the end of the quarter is well funded with a cash balance of A$70 million. As previously announced, Arafura will require additional funding at some point in time over the next 12 months to complete the expanded BFS.

Detailed discussion with specific customers has assisted Arafura in refining its Rare Earth Oxide separation program. This will ensure the program targeted for completion at the end of 2011 will provide appropriate samples for customer assessment.

Ongoing discussions in Korea, Japan, Europe and North America with targeted customers has continued in the quarter with a number expressing interest to access finance in conjunction with offtake arrangements. Confidentiality agreements are in place to enable both Arafura and the customer to explore further opportunities.

The price of a kilogram of Nolans mix of Rare Earths rose significantly throughout the quarter from US$70.52 in December 2010 to over US$208 in June 2011.

NOLANS PROJECT

Nolans Bore Mine and Resource

During the quarter the Nolans Bore 2011 resource drilling campaign continued to make good progress, with drilling contractor Drillwest mobilizing a third diamond drill rig to site on 23 June to accelerate completion of the Phase 2 (Resource Extension) program.

The overall program is aimed at improving resource confidence for direct feed into the Nolans BFS and to assess the potential for resource expansion. The program had been in planning for nearly twelve months pending finance. The program involves drilling approximately 52,260 metres in a six month program. Historically Arafura has drilled a total of 43,000 metres at Nolans Bore.

Technology development

The Company successfully completed the Hydrochloric acid regeneration program, a key part of its wider, previously reported Technology Program.

The process involves taking calcium chloride residues from the Phosphate circuit and re-acting them with Sulphuric acid to produce re-useable Hydrochloric acid, a key raw material in Arafura's pre-leach circuit, and calcium sulphate (gypsum), a potential saleable product into various end applications. This reduces Arafura's dependence on external Hydrochloric acid sources.

AMMTEC successfully operated the demonstration plant on a continuous basis at its facility in Perth, Western Australia, with involvement from experts from the McGill University, Canada, and Arafura's Technology team.

The demonstration facility successfully achieved production of Hydrochloric acid and crystalline gypsum and in addition provides useful detailed design and operating data for the BFS.

The logistical and economic benefits of Hydrochloric acid regeneration and gypsum production will now be incorporated into the BFS.

Engineering design is now underway for the overall flow sheet, and target customers are being further engaged for evaluation of the gypsum product for potential off take. Initial feedback from one major gypsum user indicates that this material has potential for future commercial use.

Technology programs scheduled for the next two quarters include metallurgical optimization of mineral concentrate grade, large-scale beneficiation and preleaching; Rare Earth sulphation; and further Rare Earth Oxide separation for customer evaluation and engineering design.

Bankable Feasibility Study (BFS)

The BFS was expanded following a detailed technical review by the Company and its expert consultants. This review identified additional work programs which have significant potential to reduce operating and capital costs, and further reduce risks associated with the start-up of the proposed Rare Earths Complex at Whyalla.

The key work to be undertaken involves optimization of the mine beneficiation process to generate a higher grade mineral concentrate. Initial metallurgical tests have indicated an upgrade from a JORC resource grade of 2.8% REO to >10% may be achievable. The significant savings in transport, capital, reagent costs and waste management are currently under assessment.

Other work planned includes production of separated REO products for customer assessment, simplification of co-product production facilities and products and further studies aimed at reducing start up risk.

Environmental Impact Statement (EIS)

During the quarter, the Company received the EIS Guidelines from the South Australian Government. These guidelines can be found at:

http://www.dac.sa.gov.au/go/major-development-guidelines/guidelines-issued-by-dac

The guidelines are comprehensive and in line with the Company's expectations.
EIS work streams are well advanced at both the Nolans Bore Mine site and Whyalla. No significant issues have been identified to date.

EXPLORATION & DEVELOPMENT

Yalyirimbi Iron JV

Under the terms of the Yalyirimbi Iron Ore Letter of Agreement, private company Ngalia Resources (Ngalia) has the right to earn up to a 60% interest in Arafura Iron Pty Ltd, a wholly-owned subsidiary of Arafura into which Arafura's iron ore rights on EL 24548 (Aileron-Reynolds region) have been assigned.

During the reporting period, Ngalia continued with on-ground exploration aimed at satisfying their minimum expenditure commitment under the agreement. This included completion of 12 RC drill holes (for 674m) to test the full thickness of hematite mineralisation encountered during the 2010 drilling campaign, and an extensive ground gravity survey (1,842 stations over a 10km^2 area) to map extensions of known hematite mineralisation under shallow cover.

Interpretation of results is underway and will form the basis of a subsequent drilling program scheduled for the end of 2011.

Mt Porter Gold Project

Arafura's divestment of the Mt Porter-Frances Creek Gold Project to Global Mineral Resources (Global) has moved into the final stages. Under the terms of the sale agreement Arafura will, upon the listing of Global on the ASX, receive A$1.5 million cash (including $100k non refundable deposit already received), 7.5 million fully paid ordinary shares, and 7.5 million options exercisable at A$0.25 prior to 30 June 2013.

All conditions precedent, with the exception of Global's listing, have now been satisfied.

On 13 July, Global advised Arafura that its IPO had opened, and that of the 30 million ordinary fully paid shares being offered to the public, 7.5 million shares will be offered in priority to eligible Arafura shareholders.

All queries should be directed to Global Mineral Resources on +61 2 4647 6177 or at http://www.globalmineralresources.com.au.

Appendix 5B

Mining exploration entity quarterly report

Name of entity

ARAFURA RESOURCES LIMITED

ABN	Quarter ended ("current quarter")
22 080 933 455	30 June 2011

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	(9,450)	(20,167)
		(b) development	(7,666)	(14,320)
		(c) production	-	-
		(d) administration	(1,344)	(6,140)
1.3	Dividends received		-	-
1.4	Interest and other items of a similar nature received		687	2,252
1.5	Interest and other costs of finance paid		(2)	(6)
1.6	Income taxes paid		-	-
1.7	Other (provide details if material)		-	-
	Net Operating Cash Flows		(17,775)	(38,381)
	Cash flows related to investing activities			
1.8	Payment for purchases of:	(a) prospects	-	-
		(b) equity investments	-	-
		(c) other fixed assets	(2,095)	(2,240)
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		(2,095)	(2,240)
1.13	Total operating and investing cash flows (carried forward)		(19,870)	(40,621)

1.13	Total operating and investing cash flows (brought forward)	(19,870)	(40,621)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	43	92,469
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	-	(4,968)
	Net financing cash flows	43	87,501
	Net increase (decrease) in cash held	(19,827)	46,880
1.20	Cash at beginning of quarter/year to date	90,094	23,543
1.21	Exchange rate adjustments to item 1.20	(43)	(199)
1.22	Cash at end of quarter	70,224	70,224

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	(391)
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, salaries & 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	Nil	Nil

Estimated cash outflows for next quarter

		$A'000
4.1	Exploration and evaluation	8,016
4.2	Development	16,278
4.3	Production	-
4.4	Administration, Sales & marketing	1,877
	Total	26,171

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	14,224	8,870
5.2	Deposits at call	56,000	81,224
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
	Total: cash at end of quarter (item 1.22)	70,224	90,094

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 26318 EL 26812 EL 26231	Lease Lease Lease	23 blocks 35 blocks 6 blocks	12 blocks 18 blocks 3 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.

		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	367,980,342	367,980,342		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	50,000	50,000	$0.85	$0.85
7.5	+Convertible debt securities (description)				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	Options			Exercise price	Expiry date
	ARUAI	3,370,000	-	$0.85	31-12-13
	ARUAO	7,910,000	-	$1.19	31-12-12
	ARUAK	1,200,000	-	$0.75	20-07-13
	ARUAQ	750,000	-	$0.98	31-08-13
	ARUAY	750,000	-	$1.08	14-09-13
	ARUAD	1,100,000	-	$1.54	26-11-13
7.8	Issued during quarter	-	-	-	-
7.9	Exercised during quarter	50,000	-	$0.85	$0.85
7.10	Expired during quarter	100,000	-	$1.60	30-06-11
		820,000	-	$1.72	30-06-11
		150,000	-	$1.31	30-06-11
		200,000	-	$1.70	30-06-11
	*Options cancelled	75,000*	-	$0.85	31-12-13
		20,000*	-	$1.19	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.

29/07/11

Sign here: .... Date: ....
(~~Director~~/Company secretary)

Gavin Lockyer

Print name: ....

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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