Quarterly Activities Report and Appendix 5B

For the period ending 30 June 2014

ASX: ARU

ARAFURA RESOURCES LIMITED

HIGHLIGHTS

- **Arafura appoints Shenghe subsidiary as China consultant to assist with the Chinese optimisation program**
- **Beneficiation optimisation Stage 1 testwork nears completion**
- **Nolans Project water supply defined from a significant groundwater system**
- **Arafura in discussions with Northern Territory regulators to agree pathway to secure life-of-operation water rights**
- **Arafura receives A$4 million R&D Rebate**
- **Industry presentations and ongoing discussions with REO customers confirm the importance of Nolans to global supply.**

NOLANS PROJECT

ARAFURA APPOINTS SHENGHE SUBSIDARY AS CHINA CONSULTANT

In September 2013 Arafura and Shenghe Resources CO., LTD ("Shenghe") entered into a MOU with the overall objective of accelerating the development of the Nolans Project (ASX: ARU 10/09/13). Shenghe is an industry leader in rare earths production and technology development, and is listed on the Shanghai Stock Exchange. Its operations include China's third largest rare earths mine in Dechang County, Sichuan Province, and a rare earths processing plant in Leshan City, Sichuan Province.

During the period the Company appointed Sheng Kang Ning (Shanghai) Mining Investment CO.,LTD ("SKN"), a 90% owned subsidiary of Shenghe, to assist with the management of its Chinese optimisation program and the completion of the Nolans Project definitive feasibility study ("DFS"). SKN is a China-based mineral investment and services company.

The services provided by SKN to Arafura include:

- Introduction of experienced and respected China-based organisations to complete testwork for the Nolans Project and other support services required in the completion of the DFS;
- Assist Arafura with its objectives to optimise the DFS for the Nolans Project;
- Strategic advice in relation to discussion and negotiations leading to the effective completion of DFS for the Nolans Project;

- Facilitation of meetings with China-based organisations and assistance with the review of work, reports and other deliverables produced by China-based contractors and service providers; and
- Assistance with investigating and securing potential opportunities for investment and marketing for Arafura.

Arafura and Shenghe consider the appointment of SKN to be a crucial and important step in formalising arrangements to establish a long term strategic partnership between the parties. Arafura looks forward to working with Shenghe and its subsidiary on the optimisation program and the completion of the Nolans DFS.

BENEFICIATION OPTIMISATION STAGE 1 TESTWORK

Arafura recently met with representatives of the Institute of Multipurpose Utilisation of Mineral Resources and the Chengdu Analytical and Testing Centre for Minerals and Rocks in Chengdu, China, to review the Stage 1 final testwork results for the beneficiation optimisation program. The testwork from Stage 1 has largely validated the results achieved by Arafura in its Australian-based development program. In addition the China optimisation testwork has identified a number of opportunities to further simplify the flowsheet whilst enhancing overall performance. Arafura expects to identify further capital and operating expense savings from this work and will quantify these savings upon finalisation of Stage 1 and commencement of Stage 2 of the testwork programs.

Beneficiated material from these programs will be used as feed stock for the downstream hydrometallurgy optimisation program.

HYDROMETALLURGY OPTIMISATION PROGRAM

It is well documented that China has a significant and successful history in the rare earths industry. With the assistance of Shenghe and more recently SKN, Arafura has been engaging with organisations that have been at the forefront of the development of the Chinese rare earths industry technology, most particularly in hydrometallurgical processing.

Concurrent with the Stage 1 beneficiation optimisation program the Company has engaged with a number of China-based organisations with significant experience in rare earths extraction and purification R&D to agree a scope of work and discuss proposed commercial terms for the Nolans hydrometallurgy optimisation program. Nolans concentrate has been prepared and is available for the hydrometallurgy optimisation program.

EXPLORATION

AILERON – REYNOLDS (Rare Earths; Water; Extractive Minerals)

The Company is currently in discussions with the Northern Territory Government and officials from the Department of Land Resource Management (Water Resources Division) and the Department of Mines and Energy to agree a process and to secure water extraction rights required to support the Company's operations at Nolans. This engagement with the Northern Territory Government follows the completion of a successful second stage of exploration and investigation drilling of a previously

unexplored basin some 20 kilometres southwest of the Nolans Site (Figure 1). Arafura is confident that through this drilling program and analysis of data collected that a sustainable water supply has been defined for the beneficiation and rare earths (RE) intermediate plant facilities at Nolans.

There are limited competing users in the region drawing water from the extensive groundwater system identified by Company's drilling program. This represents a very positive advancement for the Company that mitigates a major operational risk for the Project, and one that should see broad stakeholder acceptance. Importantly, the Company believes that once it secures rights to these water resources, it will significantly reduce the requirement for the Project to access water from within the Ti Tree Water Control District (located northeast of the Nolans Site – see Figure 1).

The Company embarked some eighteen months ago on a program to identify an alternative groundwater system to the Ti Tree Basin. This included the acquisition and interpretation of geological, hydrological and geophysical data to assist with the development of a targeted drilling, testing and monitoring program. The Company has completed over 2,500 metres of drilling which includes the establishment of monitoring bores for the ongoing collection of baseline data (Figure 1). Results to date indicate the aquifer system is high yielding and is capable of supplying mining, concentrating and chemical processing operations at Nolans with a sustainable water supply over its planned life. Work completed in the basin area to date will be followed up with definitive pump testing planned for the third quarter of 2014.

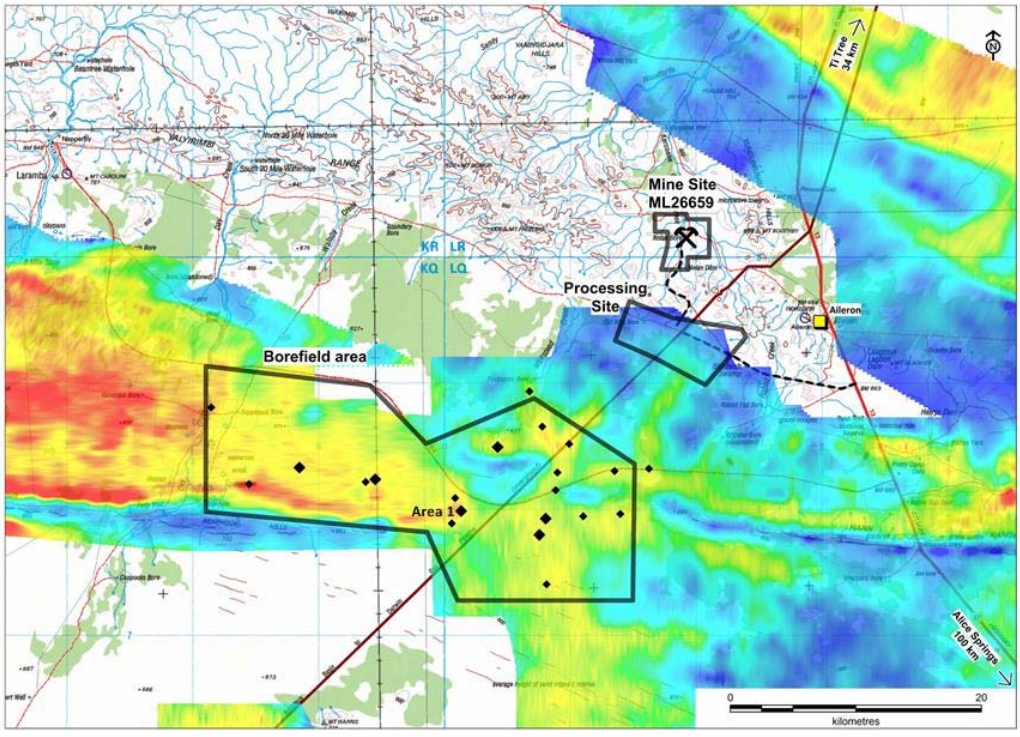

Figure 1: Location of Nolans mine site, processing site and borefield area. Individual water bores are shown as diamonds. Airborne geophysical colour image indicates high potential areas (red = high potential; blue = low potential) for buried groundwater aquifers. The location of Area 1 (shown in Figure 2) is indicated.

Figure 2: Production bore at Area 1

KURINELLI (Gold)

The Company has a stated objective to maximise resources and effort focussed on the development and commercialisation of the Nolans Project. Consistent with this objective the Company has successfully farmed out a number of non-core exploration projects to junior exploration companies.

The Company has been unsuccessful in attracting an investment partner for further development of the Kurinelli Project. The capital market situation for exploration funding remains challenging and for these reasons the Company relinquished its Kurinelli Project interests in the June quarter.

YALYIRIMBI (Iron)

Ferrowest Limited ("Ferrowest"; ASX: FWL) is progressing work in relation to the Yalyirimbi Iron Project to earn up to a 60% interest in Arafura's iron ore rights on EL 24548 through an incorporated joint venture. Arafura's iron rights are held through Arafura Iron Pty Ltd ("AIPL").

Ferrowest recently announced an estimate of Indicated and Inferred Mineral Resources for Yalyirimbi. Ferrowest is in the process of securing a 51% shareholding in AIPL and will also nominate two directors for appointment to its Board.

JERVOIS (Base and Precious Metals; Iron-Vanadium)

Rox Resources Limited ("Rox"; ASX: RXL) is progressing work on EL 29701 to earn up to a 70% interest in the base and precious metals mineral rights (Cu-Pb-Zn-Ag-Au-Bi-PGE).

Rox has successfully identified a number of significant electromagnetic anomalies that could represent accumulations of copper sulphide mineralisation. A drill program targeted at testing these anomalies is planned to commence in the third quarter of 2014.

MT PORTER – FRANCES CREEK (Gold)

Ark Mines Ltd ("Ark", ASX: AHK) is now progressing work to earn up to a 70% interest in the Mt Porter tenements and Arafura's gold interests on Frances Creek.

Arafura has agreed to extend, until 26 December 2014, the period for Ark to undertake its minimum obligations under the Mining, Farmin and Joint Venture Agreement dated 14 January 2014 ("Agreement"). Ark has recently raised $285,000 by way of a placement to fund a drilling program and in order to meet the minimum obligation under the Agreement (ASX: AHK 21/07/14).

PLEASE ALSO REFER TO APPENDIX A FOR A SUMMARY OF ALL MINING TENEMENTS AND AREAS OF INTEREST AS AT 30 JUNE 2014.

CORPORATE

STRATEGY AND OUTLOOK

At the Rare Earths North America 2014 conference in New York City (ASX: ARU 12/07/14) the Company presented an overview of its simplified Sulphuric Acid Pre-Leach ("SAPL")-Double Sulphate Salt Precipitation ("DSP") flowsheet. The revised project configuration produced significant improvements in the business case for the Nolans Project through process improvements that have enabled significant reductions in both capital and operating expenditure (ASX: ARU 20/03/14 and 02/04/14). These savings have been achieved through:

- The hydrochloric acid pre-leach has been replaced with SAPL, reducing project complexity and capital and operating costs;
- The RE extraction and impurity removal circuits have been improved with a DSP circuit that has simplified plant design, reduced operating costs and increased RE recovery targeting Neodymium and Praseodymium;
- Cerium oxidation has been included to facilitate early cerium separation in the RE extraction flowsheet to produce a saleable cerium product from the RE Intermediate Plant. This lowers the amount of feed material to the RE Separation Plant, further reducing capital and operating costs;
- Simplification of the process configuration has assisted with reduced logistics requirements; and

- Relocation of the RE Intermediate Plant to Nolans and the RE Separation Plant offshore to an established chemical precinct has further reduced capital and operating costs.

The capital and operating expenditure savings identified above and presented at the New York conference do not include further savings the Company expects to achieve from the Chinese optimisation program that is underway.

The savings already recognized in capital and operating expenditure, anticipated further improvements through the Chinese optimisation program, and identification of a significant water resource near the Nolans Site, has provided the Company with significant momentum and has been the basis for continued engagement with rare earth customers for the purpose of commercialisation of the Nolans Project. During the period Company representatives met with potential customers in Japan, Germany and the USA. The Company was also invited to present an update on the Nolans Project to a predominantly Chinese rare earth industry audience at the International Conference on Rare Earth Resources and Markets in Guangzhou, China.

At present there are perceived negative influences in the global rare earths industry that will continue to impact the market in the short term. These influences include uncertainty over China's response to the WTO rulings, the consolidation of China's rare earths processing capacity and start-up of non-Chinese production facilities. Notwithstanding these factors, engagement with potential customers and the Company's own research continues to support the view that there is an underlying and significant growth outlook for the demand drivers for a number of key REO products. In particular demand and supply analysis for Neodymium-Praseodymium (NdPr, or Didymium) oxide shows this product will be in short supply in the medium and long term. A key driver for NdPr oxide demand is the permanent magnet sector. Discussions with permanent magnet producers, end users and rare earth traders have shown significant alignment with Arafura's views on the medium to long term demand-supply outlook for NdPr oxide. The Company through its continued engagement with the market believes it is well positioned to negotiate binding offtake arrangements and advance the Nolans Project.

Nolans' high percentage of Nd and Pr (collectively 26.5% of the in-situ rare earths composition, Figure 3) is viewed extremely favourably and the Company's proven production of customer pre-qualified 99% pure NdPr oxide is a further advantage.

Arafura expects product sales directly to end users and, through distribution channels with strong local networks, to rare earth customers to deliver product to key markets. The Company's sales plan targets the highly attractive permanent magnet segment through the sale of NdPr oxide, which will contribute approximately 77% of the sales revenue (Figure 3). Market intelligence indicates there are significant changes occurring across the rare earths supply chain, with final end users in the automotive and wind turbine sectors reducing their supply risk by seeking to directly control critical raw material supply, with a requirement for a proportion of materials to be sourced from non-Chinese producers. As a consequence, the Company has for some time now been targeting these groups, in addition to the more traditional NdFeB magnet and alloy producers, for the sale of its NdPr oxide product.

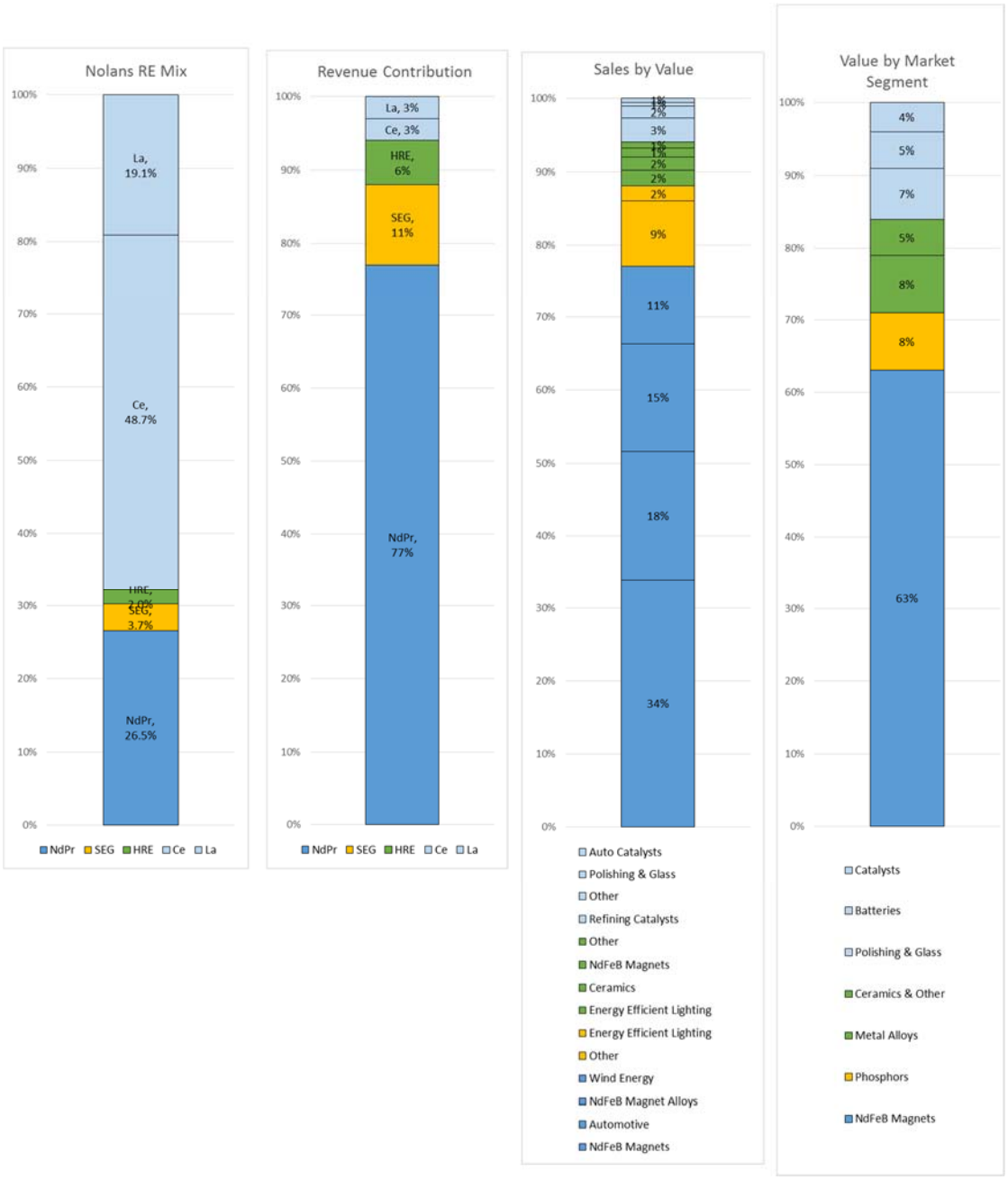

Figure 3: Nolans Value Profile

Stacked columns in Figure 3 from left to right are as follows:

- **Nolans average in-situ RE composition by weight;**
- **Revenue contribution by Arafura's RE products by value;**
- **Sales value by RE products into key markets; and**
- **Value by market segment.**

REBATE FOR ELIGIBLE R&D ACTIVITIES

In May the Company received over A$4 million as a tax refund for eligible research and development ("R&D") expenditure incurred during the 2012-13 period in the development of the Nolans Project.

The R&D Tax Incentive program is jointly administered by the Australian Government's AusIndustry program delivery division and the Australian Taxation Office. It is a targeted program that helps businesses offset a portion of costs relating to eligible R&D activities and innovation. The R&D incentive program has been available since July 2011 and during this period the Company has received a total A$26.6 million through this tax incentive. The Company is in the process of preparing its claim for the 2013-14 financial year.

CORPORATE

The Company as at 30 June 2014 had A$24.5 million cash on hand. Arafura continues to pursue its objective of maximising the proportion of cash expenditure that is incurred directly in developing the Nolans Project.

In the September quarter the Company looks forward to distributing a comprehensive Nolans Development Report providing details and analysis of the Nolans business case for the simplified flowsheet and offshore RE separation.

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	Quarter ended ("current quarter")
22 080 933 455	30 June 2014

Consolidated statement of cash flows

		Current Quarter $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 & evaluation	(2,003)	(8,348)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(848)	(4,211)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	555	1,017
1.5	Interest and other costs of finance paid	(11)	(21)
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)*	777	777
	Net Operating Cash Flows	**(1,530)**	**(10,786)**
	Cash flows related to investing activities		
1.8	Payment for purchases of: (a) prospects	-	(121)
	(b) equity investments	-	-
	(c) other fixed assets	-	(32)
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)**	3,284	3,284
	Net investing cash flows	**3,284**	**3,131**
1.13	Total operating and investing cash flows (carried forward)	**1,754**	**(7,655)**

*Receipt of non-capitalised portion of R&D Incentive
** Receipt of capitalised portion of R&D Incentive

1.13	Total operating and investing cash flows (brought forward)	**1,754**	**(7,655)**
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	-
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	-	-
	Net financing cash flows	-	-
	Net increase (decrease) in cash held	**1,754**	**(7,655)**
1.20	Cash at beginning of quarter/year to date	22,786	32,183
1.21	Exchange rate adjustments to item 1.20	6	18
1.22	**Cash at end of quarter**	**24,546**	**24,546**

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	(222)
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 and superannuation of Directors to the Company.

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	2,620
4.2	Development	-
4.3	Production	-
4.4	Administration	1,280
	Total	**3,900**

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	1,798	1,461
5.2	Deposits at call	22,748	21,325
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
	Total: cash at end of quarter (item 1.22)	**24,546**	**22,786**

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		See Appendix A		
	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	441,270,644		
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**			*Exercise price*	*Expiry date*
	ARUAU	900,000	-	*$0.96*	16-07-14
	ARUAM	600,000	-	*$0.81*	31-12-14
	ARUAW	1,750,000	-	*$0.70*	24-11-14
		1,878,000	-	*$0.23*	31-12-15
		6,750,000	-	*$0.14*	18-07-16
7.8	Issued during quarter	-	-	-	-
7.9	Exercised during quarter	-	-	-	-
7.10	Expired during quarter	500,000	-	$0.96	16-07-14
		850,000	-	$0.14	31-12-15
7.11	**Debentures** *(totals only)*	-	-		

+ See chapter 19 for defined terms.

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 2014

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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+ See chapter 19 for defined terms.

Appendix A – Mining Tenements Held As At 30 June 2014

Tenement reference	Project	Holder	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter	Notes
ML 26659	Nolans, NT	Arafura Rare Earths Pty Ltd	Mineral Lease	100%	100%	Application Lodged
EL 28498 EL 28473 EL 29509 EL 27337 EL 24741 EL 30160	Aileron–Reynolds, NT	Arafura Resources Ltd	Exploration Licence	100% 100% 100% 100% 100% 100%	100% 100% 100% 100% 100% 100%	 Application Lodged
EL 24548	Aileron–Reynolds, NT	Arafura Resources Ltd Arafura Iron Pty Ltd	Exploration Licence Non-iron rights Iron rights	100% 100% 100%	100% 100% 100%	 Ferrowest Ltd (FWL) has a right to acquire up to 60% of Arafura Iron Pty Ltd.
EL 29701	Jervois, NT	Arafura Resources Ltd	Exploration Licence	100%	100%	Rox Resources Ltd has a right to acquire up to 70% of the base and precious metals rights

+ See chapter 19 for defined terms.

Tenement reference	Project	Holder	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter	Notes
EL 10137 ML 24727 ML 27228 ML 25087 ML 25088 ML 25529 ML 27225 ML 27226 ML 27230	Frances Creek, NT	Territory Resources Ltd	Gold Rights Gold Rights Gold Rights Gold Rights Gold Rights Gold Rights Gold Rights Gold Rights Gold Rights	100% 100% 100% 100% 100% 100% 100% 100% 100%	100% 100% 100% 100% 100% 100% 100% 100% 100%	Ark Mines Ltd has a right to acquire up to 70% of the gold rights Applications Lodged for ML 27226 & ML 27230
ML 27227 ML 27229 ML 29930 MA 389		Frances Creek Pty Ltd	Gold Rights Gold Rights Gold Rights Gold Rights	100% 100% 100% 100%	100% 100% 100% 100%	Ark Mines Ltd has a right to acquire up to 70% of the gold rights Application Lodged for ML 29930
ELR 116 ML 23839 EL 23237	Mt Porter, NT	Arafura Resources Ltd	Exploration Licence in Retention Mineral Lease Exploration Licence	100% 100% 100%	100% 100% 100%	Ark Mines Ltd has a right to acquire up to 70% of all mineral rights on the tenements, with an immediate right to mine ML 23839 subject to regulatory approvals
MA 74 MCC 950 MCC 951 MCC 952 MCC 953	Kurinelli, NT	Arafura Resources Ltd	Mineral Authority Mineral Claim Mineral Claim Mineral Claim Mineral Claim	100% 100% 100% 100% 100%	Nil Nil Nil Nil Nil	Tenements relinquished
EL 25754	Pamela, NT	Arafura Resources Ltd	Exploration Licence	100%	100%	Application Lodged

+ See chapter 19 for defined terms.