



ARAFURA RESOURCES LIMITED (ASX: ARU)

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Stronger commodity prices have a positive impact on the Nolans Project

- China increases export tariffs on rare earths materials
- Rare earths prices for Nolans mix rise 23% to US\$14,250 per tonne
- Phosphoric acid price rises from US\$400 to US\$1,000 per tonne

Arafura Resources Limited Nolans Rare Earths – phosphate – uranium project has received a significant boost with strengthening commodity prices for both rare earths and phosphoric acid. Both of these products will be the main revenue streams from the project that is targeting development in 2010. The pre-feasibility study (PFS), released in late 2007, values the project with an NPV of \$1.1 billion and used conservative assumptions on prices, exchange rates and capital costs and operating costs. The confirmation of strengthening commodity prices adds further benefit to the valuation of the project.

The increase in Chinese export tariffs has increased the value of rare earths materials by (on average) 23% from US\$11,600 used in the PFS to US\$14,250 per tonne.

Phosphoric acid prices have increase by at least 150% from US\$400 per tonne used in the PFS to in excess of US\$1000 per tonne.

In early 2008, Arafura will commence the pilot plant test work on a representative bulk sample of Nolans mineralisation. The trial pit has been completed and the heavy media separation test work is due to commence in January 2008 before shipping concentrated material to the ANSTO Lucas Heights facility where the pilot plant is located. The definitive feasibility study for the project will commence at the completion of the pilot plant test work.

Rare Earths

The Peoples Republic of China's Ministry of Finance has announced an increase in the export taxes on Rare Earths materials¹.

An export tariff of 10% to 15% was applied in 2007 at rates depending on the type of rare earth product or material. In 2008 the Ministry of Finance has increased the export tax effective 1 January 2008 to:

- 15% for Cerium, Lanthanum, Neodymium, Praseodymium, as metals, oxides, chlorides or carbonate materials.
- 25% for Dysprosium, Terbium, Europium and Yttrium as oxides, chlorides or metals.

The increases in prices for Chinese rare earths due to an export tariff are compounded by a non-refundable (Chinese) VAT rate of 17% on rare earths and chemicals.

The higher export taxes will apply to rare earths that have experienced the higher rates of growth and restricted supply over the last 12 months. These include:

Terbium oxide	high performance permanent magnets and phosphors
Europium oxide	phosphors
Dysprosium oxide	high performance permanent magnets
Cerium and Lanthanum	re-chargeable batteries

Arafura believes that Chinese authorities intend to maximise the benefit of their rare earths dominance, that currently suppliers over 95% of global demand, for China's development by encouraging manufacturing enterprises that utilise rare earths to relocate to China.

Over the past 4 years the average price of the rare earths mix at the Nolans Project has appreciated by approximately 40% pa, with the greatest increase incurring over the past 12 months. The latest increase in rare earths tariffs adds momentum to support non-Chinese rare earth projects like Nolans.

The Chinese authorities are increasing their control over the prices and production rates of the Chinese rare earths industry. In 2007 the export quota that limits the volume and type of rare earth product exported from China was set at about 61,500 tonnes. Within this quota Chinese companies were authorised to export 43,500 tonnes (about 70% of the quota) while foreign owned companies were authorised to export 18,000 tonnes (about 30% of the quota).

The expectation within the rare earths industry is that this quota could reduce by about 20% in 2008 to 50,000 tonnes with some indications that a reduction of 30% to about 42,500 tonnes is possible.

A decrease of this magnitude in the Chinese export quota will cause serious shortages in non-Chinese rare earths industries and strengthens Arafura and the Nolans project as an alternate supplier in the near future.

¹ Metal Pages

The table below estimates the impact of the recent tariff changes on the value of the Nolans product, based on the prevailing prices over the past 3 months and the assumption that the export tax increases will all be passed onto consumers. Prices are quoted for 99% grade oxides FOB China.

Rare Earth Prices 2004-08 and the Impact on Nolans Output Value							
Rare Earth Oxide (99% Grade)	Nolans REO Distribution	2004 US\$/kg	2005 US\$/kg	2006 US\$/kg	2007 US\$/kg	2008 (f) US\$/kg	Nolans PFS US\$/kg
Cerium	48.32%	1.55	1.40	1.50	2.50	3.85	1.50
Lanthanum	20.40%	1.60	1.60	1.75	3.10	4.75	1.75
Neodymium	21.06%	5.65	7.40	14.80	28.90	31.80	35.0
Praseodymium	5.91%	7.45	8.30	13.60	28.00	31.40	30.0
Samarium	2.37%	2.50	2.50	3.00	3.50	3.50	5.0
Europium	0.37%	295	275	240	295	385	300
Gadolinium	0.95%	n/a	n/a	n/a	n/a	n/a	5.0
Dysprosium	0.34%	31	41	69	83	100	85
Terbium	0.08%	340	310	460	555	675	0
Other	0.20%	-	-	-	-	-	0
Weighted Average Nolans Value	100.00%	US\$4.25	US\$4.50	US\$6.55	US\$11.50	US\$14.25	US\$11.60

Notes: 1. Source for prices: *metal pages*© 2. All prices have been rounded and are the average for the full year.

The Managing Director, Alistair Stephens, said, “Products from the Nolans project have a unique market and product mix. Nolans will represent a secure long-term supply of strategically important minerals. The Company is committed to the ongoing development of the project as a supplier of rare earths to the evolving and growing needs of our potential customers.”

Alistair Stephens added “The increasing price and volume constraints associated with Chinese rare earth products have resulted in increased interest in non-Chinese sources and the increased interest shown in the Nolans Project by potential partners and customers. Currently, Arafura Resources is focused on the completion of our pilot plant trials as a key milestone in the Company becoming a significant global rare earth producer in 2011.”

Phosphoric Acid

Phosphoric acid (PA) prices across the globe reflect a supply shortage with reports of increases in the spot prices for phosphoric acid. Arafura received reports in early December 2007 that trades in phosphoric acid prices in India approached US\$1,000 per tonne. On 20 December a report (www.fertiliserworks.com) was published indicating that GCT (Groupe Chimique Tunisien) made a sale of PA to a Turkish consumer for US\$1,300 per tonne. Other significant sales of PA are reportedly realising prices of US\$700 to US\$800 per tonne inclusive of cost, insurance and freight (CFR).

Demand for PA as a commodity and as phosphate based fertiliser has surged as a consequence of the demand from the agricultural market for products that feed the biofuel market. In South America biofuels are used extensively in motor fuel. With the possibility of incentives for biofuel as a proportion of motor fuels in parts of North America and Europe, the growth for phosphate based fertilisers looks promising. The market for biofuels in Australia, while in its infancy, also looks promising.

Chinese exports of fertiliser products, including PA reduced in 2007. PA prices from China will have an export tariff of 20% in the first quarter of 2008 rising to 30% for the second and third quarters before falling back to 20% for the last quarter of 2008. This demonstrates the cyclical nature of product use and the strong domestic demand and need for phosphate based fertiliser products in China.

Australia is a net importer of about 500,000 tonnes of phosphate acid (P₂O₅ equivalent) each year mainly from Morocco and China (source:ABARE). The price per tonne for phosphoric acid is now higher by at least US\$200 than prices used in the valuation in the Nolans pre-feasibility study. Test work indicates that Arafura can produce a technical grade, high quality phosphoric acid that is low in impurities.

About Arafura

In November 2007, Arafura raised \$18.5m through an institutional placement. This Company is in a strong financial position to continue its current project development program and other exploration activities.

The Company is focused on the engineering and development plans for the Nolans Rare earths – Phosphate – Uranium project located 135 kilometres north of Alice Springs in the Northern Territory. The Company also has interests in vanadium, gold, nickel either through direct exploration or farm-in agreements.

Rare Earths are essential for technology associated with electric motors, hybrid cars, wind turbines, plasma panels, energy efficient lighting, autocatalysts and electronics.

For Further details contact

Alistair Stephens
Arafura Resources Ltd
+618 9221 7666

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