ARAFURA RESOURCES LIMITED

ABN 22 080 933 455

Half-Yearly Report
For the Period Ended 31 December 2010

CORPORATE OFFICE

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Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Arafura Resources Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2010.

Directors

The following persons were directors of Arafura Resources Limited during the whole of the half-year and up to the date of this report:

I J Laurance
I G Muir
I J Kowalick
T R Jackson
S Ward
S Lu
A Losada-Calderon

Mr. Chris Tonkin was appointed as a non-executive director effective on the 1st of January 2011.
Mr. Ian Laurance has announced at the AGM that he intends to step down over the coming months.

Review of operations

During the period, the Company made significant progress in many areas. In September 2010, the Company was pleased to announce the selection of a site in Whyalla, South Australia for the location of the Rare Earths Chemical Complex. Negotiations for the acquisition of the land are ongoing. The South Australian Government has granted Arafura Major Project status to assist it in progressing the relevant approvals process. The Company's technology program successfully separated commercial quality Cerium oxide, Neodymium/Praseodymium oxide, and a Heavy and Medium mixed Rare Earth oxide. Further work on separating more individual oxide products is continuing in 2011.

The organisational abilities within the Company were further enhanced through the appointment of key General Managers with proven experience in the global chemicals and engineering industries.

In December 2010, shareholders voted in favour of the second tranche of the capital raising announced in October. This completed the successful $90 million placement of 75 million shares to sophisticated and institutional investors. The funds will be used to progress the bankable feasibility study due to completion in the second half of 2011 and also to commence a significant resource definition and possible expansion drill program to commence in first quarter 2011.

A summary of consolidated expenditures, revenues and results for the half-year by significant segments is set out below:

	Segment expenditures		Segment revenues		Capitalised		Segment results	
	2010 $	2009 $	2010 $	2009 $	2010 $	2009 $	2010 $	2009 $
Project evaluation & development	(10,505,656)	(8,210,591)	-	-	(10,437,170)	(7,772,591)	(68,486)	(438,000)
Exploration	(276,031)	(472,487)	-	-	(276,031)	(472,487)	-	-
Other	(4,350,504)	(3,534,378)	976,107	205,663	-	-	(3,374,397)	(3,328,715)
Total(s)	**(15,132,191)**	**(12,217,456)**	**976,107**	**205,663**	**(10,713,201)**	**(8,245,078)**	**(3,442,883)**	**(3,766,715)**

Segment results are adjusted earnings/ (losses) before interest, tax, depreciation, share option expense gains/losses on disposals of assets and exchange rate gains/losses. For reconciliation to (loss) before income tax refer to note 2.

(a) Project evaluation and development.

Arafura's Nolans Project is underpinned by a world-class rare earths-phosphate-uranium deposit with current total resources of 30.3 million tonnes. The mineralisation is hosted over an area of about 150 hectares and is exposed, in part, at surface. The resource contains 850,000 tonnes of rare earths (REO), 3.9 million tonnes of phosphate (P_2O_5) and 13.3 million pounds of uranium (U_3O_8) and remains open ended along parts of strike and at depth.

Following successful rare earth carbonate production, Arafura has now moved to the next planned phase of the development program with a focus on production of a suite of Rare Earth Oxides and the completion of the Bankable Feasibility Study. During 2011, samples of Rare Earth Oxides for market assessment by potential customers will become available.

Annual production of 20,000 tons of REO is expected to commence in late 2013.

(b) Exploration

Limited exploration for rare earths on areas outlined by Arafura's 2009 reconnaissance program at Aileron-Reynolds returned no positive results. However, on-ground work was hampered during the reporting period by unseasonal wet weather in Central Australia.
Assay and recovery results from the 2008 drill program at Jervois were reported for the Casper prospect in the south-eastern part of EL 10215.

The length-weighted average results for all mineralised samples from drilling of Casper in 2008 returned 64.3% Fe, 1.69% V_2O_5 and 4.65% TiO_2 in concentrate.

Arafura executed a Letter of Agreement with Ngalia Resources ("Ngalia") for Ngalia to acquire Arafura's exploration and development rights for iron ore on Yalyirimbi EL 24548, part of the Company's Aileron-Reynolds Project. First-pass shallow reconnaissance drilling has been completed by Ngalia over several surface outcrops of iron ore, but no significant assay results were returned.

(c) Other

On the 28th of October 2010, the Company announced a placement of 75,000,000 shares at $1.20 per share to raise a total of $90,000,000. The shares were issued in two tranches, the first tranche of 43,695,000 shares were issued on the 4th of November with the second tranche of 31,305,000 shares subject to shareholder approval under ASX Listing Rule 7.1.

At Arafura's EGM on the 9th of December 2010, the second tranche was approved with the new securities being issued on the 15th of December 2010.

Matters subsequent to the end of the half-year

(a) Appointment of New Director

On the 14th of December 2010, Arafura announced the appointment of Non-Executive Director Mr. Chris Tonkin effective as of the 1st of January 2011.

Mr. Tonkin has been closely involved in the financing, business analysis and development of many major projects in Australia and internationally over the last 20 years and is recognised throughout a wide industry network.

Arafura welcomes Mr. Tonkin's appointment.

(b) Sale of Mt Porter Gold Project

On the 24th of January 2011, Arafura announced the execution of a contract entered into with Global Mineral Resources ("Global") for the sale of the Mt Porter-Frances Creek Gold Project. The consideration for the sale of the project is a combination of cash and scrip. Under the terms of the agreement, Arafura will receive A$1.5 million cash; 7.5 million fully paid ordinary shares in Global and 7.5 million options exercisable at A$0.25.

(c) Drilling Commitments at Nolans Bore

On the 14th of February 2011, Arafura executed an agreement with Drillwest, a Western Australian drilling contractor, to undertake a major drilling program at its Nolans Bore rare earths resource in the Northern Territory. The drilling program is expected to be completed within six months.

Audit independence declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 7.

Signed in accordance with a resolution of the Directors.

S Ward
Managing Director & Chief Executive Officer

Perth
22 February 2011

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22 February 2011

Board of Directors
Arafura Resources Limited
Level 5, 16 St Georges Terrace
PERTH WA 6000

Dear Sirs,

DECLARATION OF INDEPENDENCE BY PETER TOLL TO THE BOARD OF DIRECTORS OF ARAFURA RESOURCES LIMITED

As lead auditor of Arafura Resources Limited for the period ended 31 December 2010, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- any applicable code of professional conduct in relation to the review.

This declaration is in respect of Arafura Resources Limited and the entities it controlled during the period.

Peter Toll
Director

BDO

BDO Audit (WA) Pty Ltd
Perth, Western Australia

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	Notes	Consolidated 6 months to 31 December 2010 $	Consolidated 6 months to 31 December 2009 $
Revenue from continuing operations	3	839,178	203,396
Other income	3	(15,310)	(217,182)
Employee benefits expense	4	(3,691,413)	(3,640,402)
Project feasibility and evaluation	4	(68,486)	(438,000)
Other expenses	4	(1,665,755)	(2,012,617)
Depreciation and amortisation	4	(111,809)	(133,298)
Finance costs	4	(2,264)	(2,673)
Loss before income tax		**(4,715,859)**	**(6,240,776)**
Income tax expense		-	-
Net (Loss) for the half-year		**(4,715,859)**	**(6,240,776)**
Other comprehensive income/(loss)			
Changes in the fair value on assets		143,053	1,096,732
Other comprehensive income/(loss) for the half-year		143,053	1,096,732
Total comprehensive (loss) for the half-year		**(4,572,806)**	**(5,144,044)**
Total comprehensive (loss) for the half-year attributable to owners of Arafura Resources Limited		(4,572,806)	(5,144,044)
		Cents	**Cents**
Earnings per share for (loss) attributable to owners of Arafura Resources Limited			
Basic and diluted loss per share		(1.5)	(2.4)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	Notes	Consolidated as at 31 December 2010 $	Consolidated as at 30 June 2010 $
ASSETS			
Current Assets			
Cash and cash equivalents		96,666,820	23,542,883
Trade and other receivables		551,631	162,089
Total current assets		**97,218,451**	**23,704,972**
Non-current assets			
Available-for-sale financial assets		977,523	834,470
Property, plant and equipment		449,619	476,982
Deferred exploration, evaluation and development costs	5	49,395,176	38,681,975
Total non-current assets		**50,822,318**	**39,993,427**
Total assets		**148,040,769**	**63,698,399**
LIABILITIES			
Current liabilities			
Borrowings		28,827	19,835
Trade and other payables		5,373,157	3,311,585
Total current liabilities		**5,401,984**	**3,331,420**
Non-current liabilities			
Borrowings		-	18,574
Trade & other payables		21,199	-
Total non-current liabilities		**21,199**	**18,574**
Total liabilities		**5,423,183**	**3,349,994**
Net assets		**142,617,586**	**60,348,405**
EQUITY			
Contributed equity	6	174,497,635	88,662,312
Reserves		9,165,853	8,016,136
Accumulated losses		(41,045,902)	(36,330,043)
Total equity		**142,617,586**	**60,348,405**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

Consolidated Half-Year 2010	Notes	Contributed Equity $	Equity reserve $	Revaluation reserve $	Accumulated losses $	Total $
Balance at 1 July 2010		**88,662,312**	**7,908,249**	**107,887**	**(36,330,043)**	**60,348,405**
Total comprehensive income for the half-year						
Loss for the half-year		-	-	-	(4,715,859)	(4,715,859)
Other comprehensive income for the half-year						
Fair value movement of available-for-sale financial assets		-	-	143,053	-	143,053
Total comprehensive income for the half-year		-	-	143,053	(4,715,859)	(4,572,806)
Transactions with owners in their capacity as owners:						
Contributions of equity net of transaction costs		85,835,323	-	-	-	85,835,323
Cost of share based options		-	1,006,664	-	-	1,006,664
		85,835,323	1,006,664	-	-	86,841,987
Balance at 31 December 2010		**174,497,635**	**8,914,913**	**250,940**	**(41,045,902)**	**142,617,586**
Balance at 1 July 2009		**55,764,899**	**5,155,267**	**131,729**	**(26,197,165)**	**34,854,730**
Total comprehensive income for the half-year						
Loss for the half-year		-	-	-	(6,240,776)	(6,240,776)
Other comprehensive income for the half-year						
Fair value movement of available-for-sale financial assets		-	-	1,096,733	-	1,096,733
Total comprehensive income for the half-year		-	-	1,096,733	(6,240,776)	(5,144,043)
Transactions with owners in their capacity as owners:						
Contributions of equity net of transaction costs		14,413,886	-	-	-	14,413,886
Cost of share based options		-	2,118,641	-	-	2,118,641
		14,413,886	2,118,641	-	-	16,532,527
Balance at 31 December 2009		**70,178,785**	**7,273,908**	**1,228,462**	**(32,437,941)**	**46,243,214**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	Notes	Consolidated 6 months to 31 December 2010 $	Consolidated 6 months to 31 December 2009 $
Cash flows from operating activities			
Payments to suppliers and employees		(3,668,831)	(3,756,306)
Interest received		492,897	203,396
Other revenue		136,929	2,267
Net cash (outflow) from operating activities		**(3,039,005)**	**(3,550,643)**
Cash flows from investing activities			
Payment for property, plant and equipment		(73,055)	(184,698)
Payments for patents and trademarks		(34,448)	(45,143)
Payments for exploration and development		(9,578,983)	(8,649,235)
Net cash (outflow) from investing activities		**(9,686,486)**	**(8,879,076)**
Cash flows from financing activities			
Proceeds from issue of shares		85,835,324	14,413,886
Net cash inflow from financing activities		**85,835,324**	**14,413,886**
Net increase/(decrease) in cash and cash equivalents		**73,109,833**	**1,984,167**
Cash at the beginning of the financial period		23,542,883	11,113,639
Effects of exchange rates on cash and cash equivalents		14,104	(42,143)
Cash and cash equivalents at the end of the financial period		**96,666,820**	**13,055,663**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Note 1: Basis of preparation of half-year report

(a) Basis of preparation

This general purpose financial report for the interim half-year reporting period ended 31 December 2010 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2010 and any public announcements made by Arafura Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

(b) Going concern

At 31 December 2010 the Group had cash assets of $96,666,820 (30 June 2010: $23,542,883) and working capital of $91,816,467 (30 June 2010: $20,373,552).

The directors believe that the Group has sufficient cash and assets to meet its current ongoing exploration commitments, administrative and feasibility study expenditure for at least an additional 12 months from the date of this report. As a result, the directors consider it appropriate that the financial statements be prepared on a going concern basis.

Note 2: Segment information

The group has applied AASB 8 *Operating Segments* from 1 July 2009. AASB 8 requires a management approach' under which segment information is presented on the same basis as that used for internal reporting purposes.

(a) Description of segments

For management purposes, the group is organised into business units based on the critical activities to the group and most significant areas of expenditure. The operating segments are as follows:

(i) Project development and evaluation segment
(ii) Exploration segment
(iii) Other

Management monitors the expenditure levels of the segments against critical performance evaluations for the purpose of making decisions about resources allocation and performance assessment. Performance assessment is measured consistently with predetermined and static key performance indicators.

From a current geographical perspective the three reportable business segments operate in Australia.

Should transfer prices between operation segments occur, they would be on an arm's length manner similar to transactions with third parties.

Operating segments are now reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker.

(b) Segment information provided to the Managing Director & CEO

Management has determined, based on reports reviewed by the Managing Director & CEO that are used to make strategic decisions, that the Group assesses the performance of operating segments based on a measure of adjusted EBITDA. As such this measurement excludes the effects of certain expenditure from operating segments as shown in the reconciliation of adjusted EBITDA below.

The segment information provided to the Managing Director & CEO for the reportable segments for the half-year ended 31 December 2010 is as follows:

Note 2: Segment information (cont)

	Project evaluation and development	Exploration	Other	Total
6 months to 31 December 2010				
Segment revenue	-	-	976,107	976,107
Segment expenditure	(10,505,656)	(276,031)	(4,350,504)	(15,132,191)
Inter-segment expenditure	-	-	-	-
	(10,505,656)	(276,031)	(3,374,397)	(14,156,084)
Adjusted EBITDA	**(68,486)**	**-**	**(3,374,397)**	**(3,442,883)**
Capitalised	(10,437,170)	(276,031)	-	(10,713,201)
	(10,505,656)	(276,031)	(3,374,397)	(14,156,084)
6 months to 31 December 2009				
Segment revenue	-	-	205,663	205,663
Segment expenditure	(8,210,591)	(472,487)	(3,534,378)	(11,779,455)
Inter-segment expenditure	-	-	-	-
	(8,210,591)	(472,487)	(3,328,715)	(11,573,792)
Adjusted EBITDA	**(438,000)**	**-**	**(3,328,715)**	**(3,766,715)**
Capitalised	(7,772,592)	(472,487)	-	(8,245,079)
	(8,210,592)	(472,487)	(3,328,715)	(12,011,794)
Total segment assets				
As at 31 December 2010	36,773,042	12,622,134	98,645,593	148,040,769
As at 31 December 2009	20,276,735	11,965,130	15,695,915	47,937,780

Reconciliation of adjusted EBITDA to operating profit before income tax:

	Consolidated	
	2010	2009
Adjusted EBITDA	**(3,442,883)**	**(3,766,715)**
Finance Costs	(2,264)	(2,673)
Depreciation & amortisation	(111,809)	(133,298)
Share option expense	(1,006,664)	(2,118,641)
Loss on disposal of assets	-	(177,306)
Realised exchange rate loss	14,104	(22,577)
Unrealised exchange rate loss	(166,343)	(19,566)
Loss before income tax	**(4,715,859)**	**(6,240,776)**

Note 3: Revenue

	Consolidated 6 months to	
	31 December 2010 $	31 December 2009 $
Revenue from continuing operations		
Other revenue		
Interest received	**839,178**	203,396
	839,178	203,396
Other Income		
Profit/(loss) on disposal of assets	**-**	(177,306)
Exchange rate gain/(loss) – realised	**14,104**	(22,577)
Exchange rate gain/(loss) – unrealised	**(166,343)**	(19,566)
Other	**136,929**	2,267
	(15,310)	(217,182)

Note 4: Expenses

	Consolidated 6 months to	
	31 December 2010 $	31 December 2009 $
(a) Expenses		
Depreciation		
Depreciation – plant & equipment	**93,082**	100,155
Depreciation – motor vehicles	**9,933**	25,658
Depreciation – leasehold improvements	**8,794**	7,485
Total depreciation	**111,809**	133,298
Finance costs		
Interest expense	**2,264**	2,673
Total finance costs	**2,264**	2,673
Other expenses		
Accounting and other professional fees	**22,989**	53,623
Business development costs	**18,714**	155,243
Audit fees	**19,002**	42,883
Consultants fees	**383,198**	340,740
Employee benefits expense	**2,684,749**	1,521,761
Insurance	**43,592**	25,242
Legal fees	**81,790**	115,471
Promotion expenses	**25,584**	94,972
Share-based benefits expensed	**1,006,664**	2,118,641
Share registry and stock listing fees	**114,272**	73,634
Other expenses	**956,614**	1,110,809
Total other expenses	**5,357,168**	5,653,019
Development expenses		
Pilot plant expenses	**67,345**	438,000
Other projects	**1,141**	-
Total development expenses	**68,486**	438,000

Note 5: Deferred exploration, evaluation and development costs

	Consolidated 6 months to	
	31 December 2010 $	**31 December 2009 $**
Exploration, evaluation and development costs carried forward		
Balance at beginning of half-year	**38,681,975**	23,996,786
Capitalised exploration expenditure	**276,031**	472,485
Capitalised evaluation expenditure[(a)]	**10,437,170**	7,772,592
Capitalised development expenditure[(a)]	**-**	-
Balance at end of half-year	**49,395,176**	32,241,863

(a) An assumption of the going concern of the Group has been made in relation to the future recoverability of evaluation and development expenditure. (Refer to note 1: *Basis of preparation of half-year report* (b) going concern). Further, the ultimate recoupment will be achieved through exploitation of mineral recovery or sale.

Note 6: Contributed equity

Issues of ordinary shares during the half-year:

	2010 Shares	2009 Shares	**2010 $**	2009 $
Balance at 1 July 2010 (2009)	**290,640,342**	223,113,979	**88,662,312**	55,764,899
Employee options exercised	**660,000**	-	**803,400**	-
Private placement	**75,000,000**	36,100,000	**90,000,000**	14,440,000
Capital raising costs	**-**	-	**(4,968,077)**	(26,114)
Balance at 31 December 2010 (2009)	**366,300,342**	259,213,979	**174,497,635**	70,178,785

Note 7: Contingent Liabilities

Native title claims have been made with respect to areas which include tenements in which the consolidated entity has interests. The consolidated entity is unable to determine the prospects for success or otherwise of the claims and, in any event, whether or not and to what extent the claims may significantly affect the consolidated entity or its projects.

Note 8: Dividends

There were no dividends provided for or paid during the half-year.

Note 9: Related Party Transactions

The Board reviewed the remuneration package for the Managing Director & CEO taking into consideration market trends and independent expert advice.

With effect from 1 January 2011 the main elements of a revised package which has been implemented are;

Total Fixed Remuneration (TFR) including superannuation	$846,000 pa.
Short Term Incentive (STI) - annual basis, individual performance KPI driven	Up to 60% of TFR in cash.
Long Term Incentive (LTI) – annual basis, corporate KPI driven	Up to 45% of TFR in equity.

For the current half-year period a total of $846,000 in cash was paid for Short Term Incentive and Long Term Incentive schemes that were in place for the 2010 calendar year.

The following options have been issued to Key Management Personnel and a Non-Executive Director during the 6 months ended 31 December 2010:

Recipient	Grant Date	Expiry Date	Exercise Price	Number of Options	Total Fair Value $	Expense at 31-Dec-10 $
G. Lockyer - CFO	21-Jul-10	20-Jul-13	$0.75	500,000	153,000	64,749
S. Mackowski - GM Technology	21-Jul-10	20-Jul-13	$0.75	350,000	107,100	45,324
R. Brescianini - GM Exploration	21-Jul-10	20-Jul-13	$0.75	350,000	107,100	45,324
N. Graham - GM Operations	1-Sep-10	31-Aug-13	$0.98	750,000	270,750	74,672
J. Ganser - GM Projects	13-Sep-10	14-Sep-13	$1.08	750,000	364,500	89,924
A. Losada-Calderon - Non-Executive Director	25-Nov-10	26-Nov-13	$1.50	1,100,000	739,200	43,583
				3,800,000	1,741,650	363,576

Note 10: Events occurring after the balance sheet date

(a) Appointment of New Director

On the 14th of December 2010, Arafura announced the appointment of Non-Executive Director Mr. Chris Tonkin effective as of the 1st of January 2011. Mr Tonkin will also serve as a member of the Audit and Risk Committee.

Mr. Tonkin has most recently been executive director and head of natural resources at ANZ Banking Group's project and structured finance area.

(b) Sale of Mt Porter Gold Project

On the 24th of January 2011, Arafura announced the execution of a contract entered into with Global Mineral Resources ("Global") for the sale of the Mt Porter-Frances Creek Gold Project. The consideration for the sale of the project is a combination of cash and scrip. Under the terms of the agreement, Arafura will receive A$1.5 million cash; 7.5 million fully paid ordinary shares in Global and 7.5 million options exercisable at A$0.25.

(c) Drilling Commitments at Nolans Bore

On the 14th of February 2011, Arafura executed an agreement with Drillwest, a Western Australian drilling contractor, to undertake a major drilling program at its Nolans Bore rare earths resource in the Northern Territory. The drilling program is expected to be completed within six months.

DIRECTORS' DECLARATION

In the directors' opinion:

(a) the financial statements and notes set out on pages 8 to 19 are in accordance with the *Corporations Act 2001*, including

(I) complying with Accounting Standards, International Financial Reporting Standards, Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

(b) There are reasonable grounds to believe that Arafura Resources Limited will be able to pay its debts as and when they become due and payable.

This declaration made in accordance with a resolution of the directors.

Ian J Laurance
Chairman

Perth
22 February 2011

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INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF ARAFURA RESOURCES LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying consolidated half-year financial report of Arafura Resources Limited, which comprises the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity composing the disclosing entity and the entities it controlled at the half years end or from time to time during the half year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity are responsible for the preparation of the half-year financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act* 2001 including: giving a true and fair view of the disclosing entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Arafura Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Arafura Resources Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Arafura Resources Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

BDO Audit (WA) Pty Ltd

BDO

Peter Toll
Director

Signed in Perth, Western Australia
Dated this the 22nd day of February 2011.