AN EMERGING RARE EARTHS PRODUCER FOR USERS WORLDWIDE

Arafura Resources Limited

ABN 22 080 933 455

Annual Report

30 June 2011

Registered Office and Principal Place of Business
Level 5
16 St Georges Terrace
Perth
Western Australia
6000

CONTENTS

CORPORATE DIRECTORY

Directors	Ian J Laurance (Chairman) Stephen Ward (Managing Director & Chief Executive Officer) Ian J Kowalick (Deputy Chairman) Terry R Jackson Irvin G (Mick) Muir Shasha Lu Alex Losada-Calderon Chris S Tonkin Lloyd H Jones Loretta Reynolds
Secretary	Gavin J Lockyer
Notice of annual general meeting	The annual general meeting of Arafura Resources Limited
Will be held at	Hyatt Hotel, Plaza Ballroom 1, 99 Adelaide Terrace, Perth, Western Australia
Time	2.30pm (WST)
Date	Friday 25 November 2011
Principal registered office in Australia	Level 5, 16 St Georges Terrace Perth Western Australia 6000
Share registry	Security Transfer Registrars Pty Ltd 770 Canning Highway Applecross Western Australia 6153

CORPORATE DIRECTORY

Auditor	BDO Audit (WA) Pty Ltd 38 Station Street Subiaco Western Australia 6008
Solicitors	Johnson Winter & Slattery 216 St Georges Terrace Perth Western Australia 6000
Bankers	Westpac Banking Corporation 109 St Georges Terrace Perth Western Australia 6000
Stock exchange listing	Arafura Resources Limited shares are listed on the Australian Stock Exchange under the code ARU
Website address	www.arafuraresources.com.au

Chairman's Report

It is my pleasure to provide an update on the progress by Arafura Resources to deliver on our strategic objective to be the recognised leading producer of rare earths for users worldwide from our 100 per cent owned Nolans Project. Your company is at an exciting point in its history, evolving from the exploration phase into the development phase at a time when the outlook for rare earths is extremely positive.

Step-change in the global market

In the past 12 months there has been a significant step-change in the world market for rare earths and the flow-on effect to prices.

Concurrent with this, Arafura also expects that strengthened demand for end-use applications across a number of growth sectors – including energy efficient green technology products such as wind turbines and low-energy light bulbs and in many modern technological devices such as electric motors, magnets, lasers, batteries, computer and LCD television screens, iPods and mobile phones – will underpin higher rare earth oxide (REO) demand for the remainder of this decade and into the future.

Arafura is well positioned to capitalise on these favorable market dynamics as its world-class Nolans Rare Earths Project is one of the very few new supply sources that will be developed this decade.

Nolans Bore Drilling Program

Your company undertook a significant expenditure program in the Northern Territory on our Nolans Bore deposit through the year. At the conclusion of the current drill program Arafura will have invested significant funds in the region completing nearly 100 kilometres of drilling. We continue to receive excellent support from the Northern Territory Government as we progress through the regulatory framework to explore the resource and develop the Nolans Bore Mine.

Whyalla Rare Earths Processing Complex

In September 2010, Arafura announced the selection of Whyalla in South Australia (SA) as the site for its Rare Earths Processing Complex. This was a major milestone in the company's history and will allow Arafura to value-add to resources from our Nolans Bore deposit in the Northern Territory.

Response from the local community and the South Australian Government has been overwhelmingly positive and we were delighted in the Government's decision to grant Major Project status for the complex.

CHAIRMAN'S REPORT

Capital Raising completed

To progress development of the Nolans Project, Arafura was pleased to complete a $90 million capital raising via a share placement to global institutional investors in October 2010. The funds raised, together with Arafura's existing cash reserves, have been used to progress the project's Bankable Feasibility Study (BFS), activities associated with securing regulatory approval, and work on the technology demonstration work program.

Funds have also been used for the major drilling program aimed at significantly increasing the size and confidence of the Nolans Bore resource.

Expanded scope for BFS

In June 2011, Arafura announced its decision to expand the scope of the BFS for the Nolans Project which will extend the completion date by 9 to 12 months. The rationale of taking this important decision was to enable the company to optimise the already developed process to focus on the high-value rare earths in the Nolans Bore deposit. We are confident this decision will deliver greater shareholder value throughout the life of the Nolans Project.

Board Refresh Program

As outlined at the 2010 Annual General Meeting, the company implemented a structured 'Board Refresh Program' during the year to continue to equip the Arafura Board with the necessary competencies as it transitions rapidly through the emerging company status to the operational phase.

This program commenced with the appointment of Mr Chris Tonkin to the Arafura Board as a Non-Executive Director on 1 January 2011. Mr Tonkin was formerly executive director and head of natural resources at ANZ Banking Group's project and structured finance area. He is also a member of the Board's Audit and Risk Committee.

On 30 August 2011 the company announced the appointment of Mr Lloyd Jones as a Non-Executive Director. Mr Jones has substantial experience in chemicals industry and held senior executive management positions with responsibility for extensive operations in Australia and worldwide At various times he has been based in Australia, the United States, China and Japan. More recently he worked in the private equity sector and was based in Hong Kong.

On 16 September 2011, Arafura also announced the appointment of Ms Loretta Reynolds as Non-Executive Director. Ms Reynolds is a corporate lawyer specialising in complex commercial matters and in mergers and acquisitions and has wide-ranging experience in Australia, internationally and in the regulatory environment in South Australia and Northern Territory. Since 2007 Ms Reynolds has been Chairman of Partners at Australian law firm Thomsons Lawyers.

At the 2010 AGM I announced my intention to step down as Chairman of Arafura. Mr Ian Kowalick, who has served as a Non-Executive Director of the company since its listing on the Australian Securities Exchange (ASX) in 2003, was appointed Deputy Chairman in July 2011 and will assume the role of Chairman at Arafura's 2011 AGM in November.

CHAIRMAN'S REPORT

Mr Kowalick, Mr Tonkin, Mr Jones and Ms Reynolds have significant experience in government, business, resources and the chemical industry and are well placed to use their relevant expertise to guide the company's development to become the recognised leading rare earths producer. Arafura is also seeking to appoint one more new Non-Executive Director with the appropriate experience in the chemical and resource sectors.

As part of the Arafura Board Refresh Program it is the intention of Messrs Muir, Jackson and myself to retire from the Board by the end of our current respective terms.

For my own part, I have been proud to be Chairman of your company since 2008. Leading Arafura through the difficult Global Financial Crisis period in 2008/2009 and overseeing the appointment of current Managing Director and CEO, Dr. Steve Ward have been satisfying achievements. I believe

the appointment of Dr Ward to be probably the most significant event in Arafura's history – and I am confident in his ability to deliver the Nolans Project and to build Arafura Resources into a major Australian company.

I wish to pay tribute to my fellow Directors, including the ECE nominee Directors, for their wise counsel and dedication to the company.

I also take this opportunity to thank the loyal Arafura staff for their commitment and professionalism during a period of considerable change.

Finally, I thank you the shareholders for your continuing support - you fully deserve to share in Arafura's exciting future.

Ian Laurance

Ian Laurance AM
Chairman

MANAGING DIRECTOR'S REVIEW

Managing Director's Review

The past year is marked by a number of significant milestones in Arafura's history to develop our wholly-owned Nolans Rare Earth Project and deliver maximum value to our shareholders over the 20^+ years of this project.

The project has a world-class rare earths deposit and all efforts by the Arafura Team throughout the 2010/11 financial year have been dedicated to value-adding to this strategic Australian resource which will be processed in Australia, using proprietary Australian-owned technology.

Throughout the year, Arafura witnessed a significant lift in the investment market and general community's interest in and awareness of rare earth elements and their use in energy efficient green technology products such as wind turbines and low-energy light bulbs and in many modern lifestyle products including computers and LCD television screens, iPods and mobile phones.

As Arafura transitions to becoming one of the very few new producers of rare earths outside of China this decade, we will continue to uphold a core value that the health and safety of all who work for the company and the communities in which we operate is a cornerstone to everything we do.

I am pleased for this opportunity to present the following summary of the key milestones achieved during the year.

Strong Health and Safety performance

As activities with the Nolans Project ramped up, considerably more staff and contractors were involved on the Project and more diversified work programs were undertaken. We have progressively implemented appropriate safety and environmental management processes in line with the Project's advancement and I am pleased to report that no injuries were recorded for the year for Arafura employees. Disappointingly, there was one medical and three lost time injuries sustained by contractors engaged by Arafura. While the injuries were relatively minor, the Company takes any injury very seriously and all aspects of safety management and working safely will continue to be a key focus area going forward.

Excellence in environmental stewardship

I am pleased to report that no environmental incidents were recorded for the year.

Targeted customer engagement

Throughout the year Arafura continued to be very active in meeting with target customers in Europe, Japan, Korea and the United States to negotiate potential off-take agreements for our rare earth products from the Nolans Project.

We have specifically targeted customers which Arafura would prefer to develop long-term relationships with, based on a number of factors we consider important for the mutual success of a commercial relationship.

A major milestone was achieved on 18 August 2011, subsequent to the reporting period, when Arafura executed a Letter of Intent (LOI) with German company ThyssenKrupp Metallurgical Products to develop an exclusive, long-term commercial agreement for the sale of Arafura's rare earth oxide (REO) products into Germany. ThyssenKrupp Metallurgical Products is part of the global ThyssenKrupp Corporate Group, a major global organisation.

Arafura's agreement with ThyssenKrupp is expected to account for approximately 15 per cent of the company's planned 20,000 tonnes annual REO production from the Nolans Project. The final off-take volume is subject to the completion of a formal commercial agreement.

Arafura is continuing its proactive marketing program for its rare earth products with other target customers as it continues to advance progress towards becoming a rare earth producer.

New era for rare earth prices

Arafura believes a fundamental step-change in the rare earths industry occurred during the year.

In June 2011, the average value of the rare earth mix from Arafura's Nolans Project was US$208/kilogram, a 1,221 per cent increase compared to the value in June 2010.

Our detailed market analysis, for both current and forecast periods, indicates the dynamics of constrained supply and increased demand. Furthermore, Arafura's analysis shows that the new, higher price levels reached in 2011 in many cases represent a return to long-term historic pricing in real terms. Consequently, it is the company's view that higher prices are likely to firm, or increase, for most REO products.

It is becoming clearer that the Chinese Era in the 1990's and pre-Global Financial Crisis was unsustainable - both in terms of low cost production and volume produced. As part of its industrial restructuring plan, China has rationalised production by closing environmentally damaging and illegal operations. This closure of low cost unsustainable operations and implementation of higher environmental regulations for ongoing operations has driven up production costs. As China's supply sources have become constrained from closures and as demand soared for many end-use applications, Arafura firmly believes that the era of low-price rare earth products is behind us as more normal supply and demand dynamics prevail.

Arafura remains well placed to capitalise on the stronger prices, to deliver on its strategic objective and to maintain its leadership position as one of the very few companies outside China capable of being a near-term producer of rare earth oxides this decade.

MANAGING DIRECTOR'S REVIEW

Nolans Bore Drilling Program

The most extensive drilling program in the company's history commenced during the year. The purpose of this program is to facilitate an upgrade in confidence levels in the current resource to reserve status, to establish the full extent of the resource and to gauge expansion opportunities. This program will complete more drilling than collectively undertaken in all previous years. We continue to receive excellent support from the Northern Territory Government as we undertake the drilling campaign and work through the regulatory requirements for the future Nolans Mine.

Rare Earths Processing Complex

Throughout the year our efforts were firmly focussed on the advancement of the Nolans Project in line with Arafura's business model to value-add to our world-class rare earths resources, by processing this strategic Australian resource in Australia, using proprietary Australian developed and owned technology.

One of the significant milestones delivered was Arafura's selection of Whyalla in South Australia (SA) as the site for our proposed Rare Earths Processing Complex. Key factors influencing this decision included the availability of a large industrial site, proximity to established infrastructure and access to a highly flexible and skilled workforce.

Above: Aerial photo of Whyalla, Arafura's selected site for it's Rare Earths Processing Complex.

MANAGING DIRECTOR'S REVIEW

Building the Rare Earths Complex is consistent with the South Australian Government's desire to broaden the State's regional economic base by expanding its mining and mineral processing industry and, in September 2010, the complex was declared a Major Project by the South Australian Government.

Immediately following the site selection announcement, Arafura established a permanent office in Whyalla and commenced a community consultation program. The company has established a Community Reference Group to provide a forum for the exchange of information during the assessment, construction and operational phases of the project.

Above (L:R): Chairman Ian Laurance, MD & CEO Stephen Ward and EHS Coordinator Allan Kane at the official opening of Arafura's permanent office in Whyalla.

In June 2011, we received the Environmental Impact Statement (EIS) guidelines relating to development approvals for the complex and in July 2011 Arafura exchanged contracts to purchase approximately 800 hectares of land located within OneSteel Limited's landholding at Whyalla for our planned Rare Earths Processing Complex. Importantly, Arafura is positioned as one of the very few potential near-term rare earth producers which have secured an appropriate area of land, in close proximity to established infrastructure, in a low sovereign risk country.

Detailed Technical Review

After completing the successful $90 million capital raising in late 2010, Arafura engaged leading mining, mineral processing and engineering companies, which complement our in-house capability, to provide expert advice on key aspects of the Nolans Project. The consultants are both experienced and internationally respected experts in their relevant fields, particularly in large chemical process projects.

Once the site selection decision for the proposed processing complex was made and the required expertise was in place, Arafura completed a detailed technical review of the project. This review identified additional work programs that have significant potential to optimise already developed processes to reduce operating and capital costs for the life of the project and further reduce risks associated with the commissioning and start-up of the Rare Earth Processing Complex.

Optimised Process Flowsheet

Concurrent with the detailed technical review, there was a significant change in the world market for rare earths and the flow on effects to higher prices. As rare earth prices returned to historic long-term levels in real terms Arafura made the decision, in June 2011, to simplify its process flow sheet for the Nolans Project to focus more intently on deriving value from its rare earths product stream.

This decision necessitated the need for Arafura to expand the scope of the Nolans Project Bankable Feasibility Study (BFS) and extend the study's completion date by 9 to 12 months. We also flagged that an additional $50M to $60M would be required to complete the new scope of work.

The earlier flow sheet was developed to produce rare earths oxide products, phosphoric acid, uranium oxide (U3O8) and gypsum. This multi-product model was devised when product value of rare earths to other products was approximately 2:1 respectively. In the past 12 months, this ratio has moved to 40:1 and warranted amendments to the flow sheet to produce where possible simpler co-products (solid phosphate and UO4) which require a less complex and capital intensive plant. There will also be significantly reduced interdependency risks between the rare earths plant and other product plants – particularly in the critical commissioning and start-up phase.

Arafura's decision to optimise its flow sheet has a number of important key benefits that will impact all stages of the Nolans Project.

At the proposed Nolans Bore Mine, Arafura is completing additional work to generate a significantly higher grade mineral concentrate. Initial metallurgical tests have indicated an upgrade from a JORC resource grade of 2.8 per cent REO to >10 per cent may be achievable and would deliver substantial savings over the project's life due to lower reagent, transport, capital and waste management costs

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Technical Developments

Good progress has been made with development of our final rare earth product portfolio. Various rare earth oxide products were successfully produced at laboratory scale at Australian Nuclear Science and Technology Organisation (ANSTO). Following our discussions with target customers, Arafura is continuing product development work to fine tune quality specifications to meet specific customer needs. We will then advance through continuous piloting to produce customer samples for final evaluation in the coming months.

MANAGING DIRECTOR'S REVIEW

Arafura Board left to right; Chris Tonkin, Terry Jackson, Ian Kowalick, Gavin Lockyer (CFO), Steve Ward, Mick Muir and Ian Laurance. Board members are standing beside some of the tanks in the demonstration circuit.

Regulatory Approvals

Following receipt of the Environmental Impact Statement (EIS) for the Whyalla Rare Earths Complex from the South Australian Government, good progress has been made both at Nolans and Whyalla on EIS studies. Many background studies have been completed and we continue to work diligently through the EIS requirements and overall regulatory processes. We are firmly committed to meeting the requirements set down.

Project Finance Options

In addition to signing a Letter of Intent for off-take, ThyssenKrupp Metallurgical Products has agreed to work with Arafura to pursue potential funding for the Nolans Project.

Significant investment will be required to complete the Nolans Project and the company intends to appoint corporate and financial advisors to assist us as work on completing the BFS proceeds.

MANAGING DIRECTOR'S REVIEW

Work in defining the optimal capital structure for the company is ongoing and Arafura will continue to evaluate all sources of financing including, but not limited to, debt, equity, potential participation with target customers and other sources to secure the most appropriate structure that will deliver maximum value to Arafura's shareholders.

Strengthened Executive Management Team

In July 2010, Mr Neil Graham was appointed to the position of General Manager Operations. Mr Graham is a chemical engineer with extensive experience in senior operational roles in the chemical industry. He has been involved in several significant projects and operational start-ups.

Mr John Ganser was appointed as General Manager Projects in August 2010. He is a mechanical engineer with a long and distinguished career in Project Management. He has been involved in several significant, large-scale and successful processing projects, and has worked for major engineering contracting organisations

Mr Gary Cianfichi joined Arafura as Sales and Marketing Advisor and is leading our interaction program with target customers. He has a long and successful career in sales and marketing management for speciality chemicals worldwide.

Arafura's Executive Management Team is now in place and positioned to drive the company forward and build on the excellent progress we have made to date. The transitional journey from junior explorer to major mining and specialty chemical operations is rapid. Our staff are key to delivering successful delivery of the Nolans Project.

Creating value from non-core assets

Arafura maintains its efforts to look for value-creating opportunities for its non-core assets by seeking arrangements with third parties to develop or acquire the assets.

On 24 January 2011 Arafura announced the sale of the Mt Porter-Frances Creek Gold Project to Global Mineral Resources Limited (Global) for A$1.5 million cash, 7.5 million fully paid ordinary shares in Global, and 7.5 million options exercisable at A$0.25. The transaction will be settled at the time of a successful ASX listing by Global.

Summary

In summary, we have made excellent progress in the past year. The Arafura team is totally focussed on delivering the Nolans Project to create significant shareholder value.

The next 12 months will be a challenging and exciting time and the team has its sights set on delivering more significant progress and ultimately realising our vision 'to be the recognised leading producer of rare earths for users worldwide'.

MANAGING DIRECTOR'S REVIEW

I would like to conclude by thanking the Board for their support and wise counsel, our employees, or 'Arafurans' as I like to refer to them, for their commitment and dedication and our shareholders for their understanding and ongoing support.

Dr Stephen Ward

Managing Director and CEO

OPERATIONS OVERVIEW

Operations Overview

Arafura is well positioned to capitalise on the favorable market dynamics for rare earth oxides as it progresses development of its world-class Nolans Rare Earths Project – one of the very few new supply sources of rare earth oxides outside China that will be developed this decade. Rare Earths are relatively easy to find, but are very scarce in deposits which can be successfully exploited both technically and commercially. The Nolans resource is one of these and is world scale.

The Nolans Project will involve value adding in Australia to produce rare earth oxides at Whyalla from the strategic Nolans rare earth resource located in the Northern Territory. Rare Earth production uses advanced technology and is capital intensive. Arafura's technology has been developed in Australia using a number of world class consultants. The technology is subject to patents. It is planned to produce 20,000 tonnes per annum of rare earth oxides which will equate to about 10% of the global market.

Customers and pricing

The outlook for the rare earths market is very positive. End use market sectors of modern technology consumer goods, clean energy applications and energy efficiency products are all forecast to grow at multiples of GDP. The challenge for the rare earths industry is to produce adequate supplies to meet this growing demand. Pricing for rare earths is now beginning to reflect true supply/demand dynamics after a period of lower prices underpinned by unsustainable low cost production from China. Arafura believes that the era of low prices has finished and higher and firming price will be seen going forward.

Arafura is the only company with significant amounts of uncommitted rare earth oxide products available to supply users worldwide. The company is very active in meeting with target customers in Europe, Japan, Korea and the United States to negotiate potential off-take agreements for our rare earth products from the Nolans Project.

We have specifically targeted customers which Arafura would prefer to develop long-term relationships with, based on a number of factors we consider important for the mutual success of a commercial relationship.

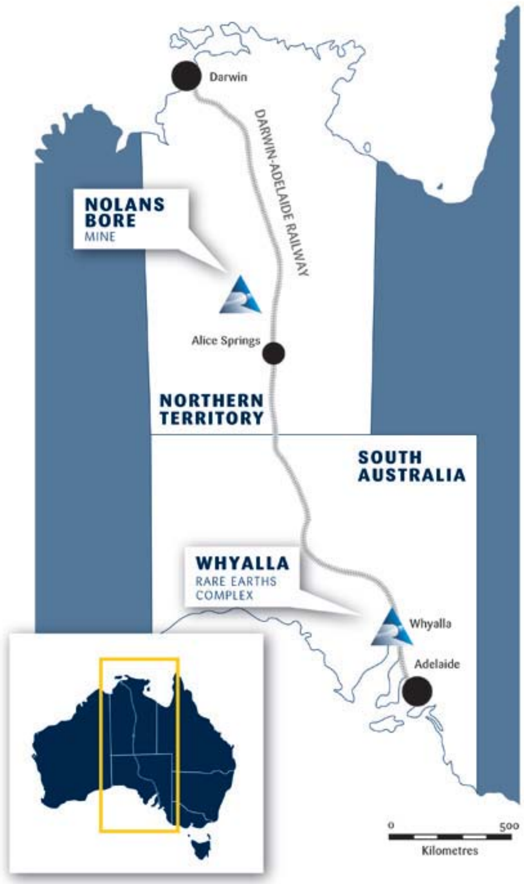
We have already signed our first letter of Intent covering sales of our product with Thyssen Krupp the large German Company with extensive worldwide interests.

Our product development program is progressing well. We are fine tuning the product quality in the laboratory. Then we will produce samples for target customer evaluation in the coming months from continuous pilot plant operation.

OPERATIONS OVERVIEW

Nolans Bore Mine

The Nolans Project is underpinned by a world-class mineral deposit at Nolans Bore, 10 kilometres west of the Stuart Highway near Aileron Roadhouse, and about 135 kilometres north-north-west of Alice Springs.



Nolans Bore contains large quantities of:

- rare earths (lanthanum, cerium, praseodymium, neodymium, samarium, europium, gadolinium, terbium, dysprosium and yttrium);
- phosphate;
- uranium oxide; and
- other less valuable minerals, including thorium.

A 20-plus year mine life is already planned, although the project may be extended as additional resource drilling is completed and results assessed.

In February-September 2011, the Company undertook the largest drilling campaign in Arafura's history at the Nolans Bore site, involving approximately 52,500 meters of drilling. The program was aimed at improving resource confidence for direct feed into the Nolans Project BFS. The drill program was also designed to assess the potential for resource expansion, by comprehensively testing the depth continuity of Nolan's Bore to a maximum depth of about 250 metres, significantly deeper than the 150 metre depth previously drilled.

Results from the recent drilling program will be incorporated into the proposed Nolans Bore Mine design as part of the expanded BFS. Arafura has now completed almost 100 kilometres of drilling of all types at Nolans Bore, representing a very substantial investment by the Company that reflects the quality of the asset.

Current planning is for the Nolans Bore Mine to be developed as an open pit operation.

Arafura intends to crush and grind the mined ore to provide feedstock to a beneficiation plant for upgrading to a mineral concentrate. Waste materials from mining and beneficiation will be placed in overburden rock storage areas or in specially designed tailings storage facilities, as appropriate.

OPERATIONS OVERVIEW

As part of the expanded BFS, Arafura is completing additional work to further enhance the concentrate grade to >10 per cent rare earth oxide (REO). This would significantly reduce the volume of mineral concentrate produced from the mine if the higher target is achieved.

Following beneficiation, the concentrate will be transported from the Nolans Bore Mine along a purpose-built private road to a transfer station at a siding on the main Darwin to Adelaide railway line, a haul distance of about 65 kilometres. The concentrate will be railed in sealed containers approximately 1,400 kilometres to Arafura's Rare Earths Complex at Whyalla in South Australia.

The Northern Territory Government has issued guidelines for the Environmental Impact Statement (EIS) for the Nolans Bore Mine and Arafura is continuing work on community consultation and the environmental approvals process. A number of baseline studies have already been completed.

Above: Artists impression of the proposed Nolans Bore Mine Layout.

Whyalla Rare Earths Complex

Arafura conducted an exhaustive Australia-wide site selection process for the location of its Rare Earths Complex and in September 2010 announced it will be located at Whyalla in South Australia.

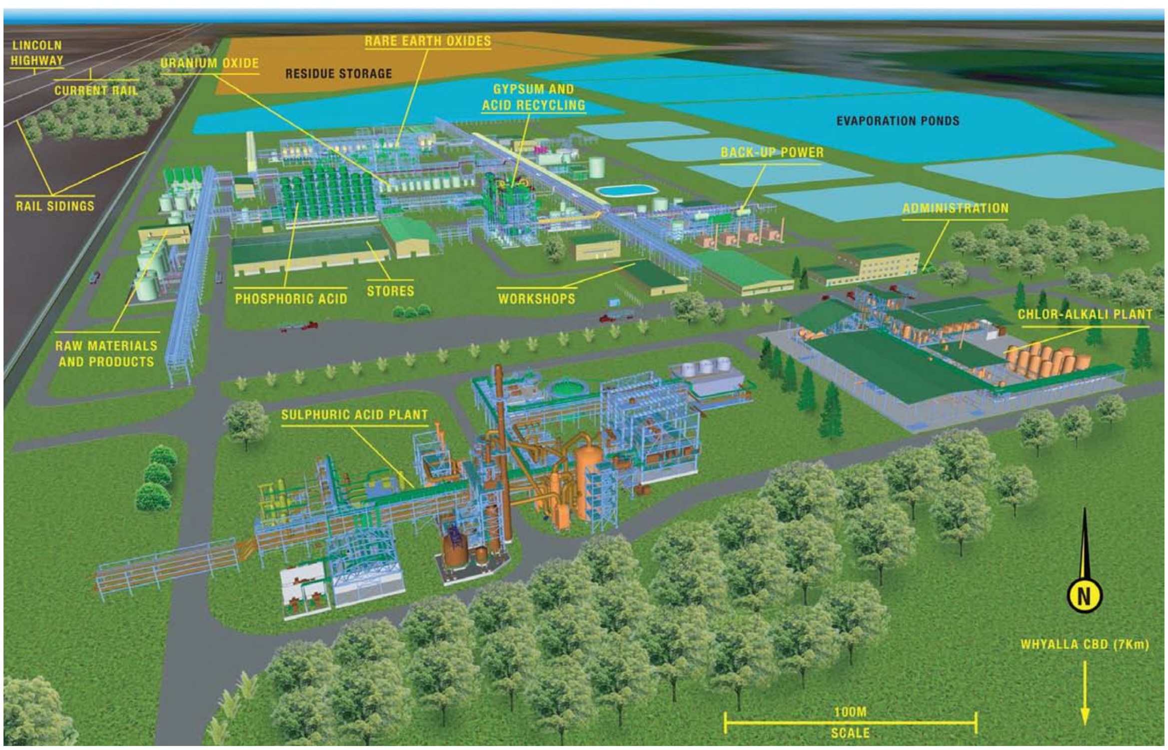
OPERATIONS OVERVIEW

The 800 hectare site, which Arafura secured in June 2011, was selected because of proximity to key infrastructure, such as road, rail and port facilities, seawater, for desalination, access to a skilled workforce, together with the support of the South Australian Government and local community for the project. In September 2010, the complex was declared a Major Project by the South Australian Government.

Mineral concentrate, rich in rare earths and phosphate minerals, will arrive at the Whyalla Complex by rail from the Nolans Bore Mine. Chemical reagents, such as caustic soda, lime and magnesia, will arrive by rail or road. New sidings will be built along the western boundary of the complex, parallel to the Lincoln Highway that connects Whyalla to Port Augusta, to receive goods by rail.

Separation of the mineral concentrate into two main processing streams – one for rare earths, and one for phosphate – will be through a patented pre-leach process. As this process requires a continuous supply of hydrochloric acid, it will be manufactured on-site in a chlor-alkali plant. There will also be the need for a sulphuric acid plant, as this is another key raw material.

Further treatment of each processing stream will recover rare earth oxides, a solid phosphate product, gypsum and uranium oxide.



Above: Artists impression of the Whyalla Rare Earths Complex.

Over the next year, Arafura will seek environmental approvals from the South Australian and Australian governments for the Whyalla Rare Earths Complex. Arafura received Environmental Impact Statement Guidelines from the South Australian Government in June 2011 which are both comprehensive and in line with the Company's expectations.

Arafura has commenced baseline environmental assessments for the complex and initiated an engagement program with the Whyalla community. A Community Reference Group has also been established and Arafura will undertake extensive community consultation before construction of the Rare Earths Complex begins.

Nolans Bore Resource

Nolans Bore is of the world's largest resources of rare earths, containing:

- 850,000 tonnes of REO (grading 2.8% REO);
- 3.9 million tonnes of phosphate pentoxide (grading 12.9% P_2O_5); and
- 13.3 million pounds of uranium (grading 0.44 lb/t U_3O_8).

Arafura published a JORC-compliant statement of Identified Mineral Resources for Nolans Bore in November 2008:

Resource classification	Tonnes (millions)	REO%	P_2O_5%	U_3O_8lb/t
Measured	5.1	3.2	13.5	0.57
Indicated	12.3	2.8	13.4	0.43
Inferred	12.8	2.6	12.2	0.40
TOTAL	**30.3**	**2.8**	**12.9**	**0.44**

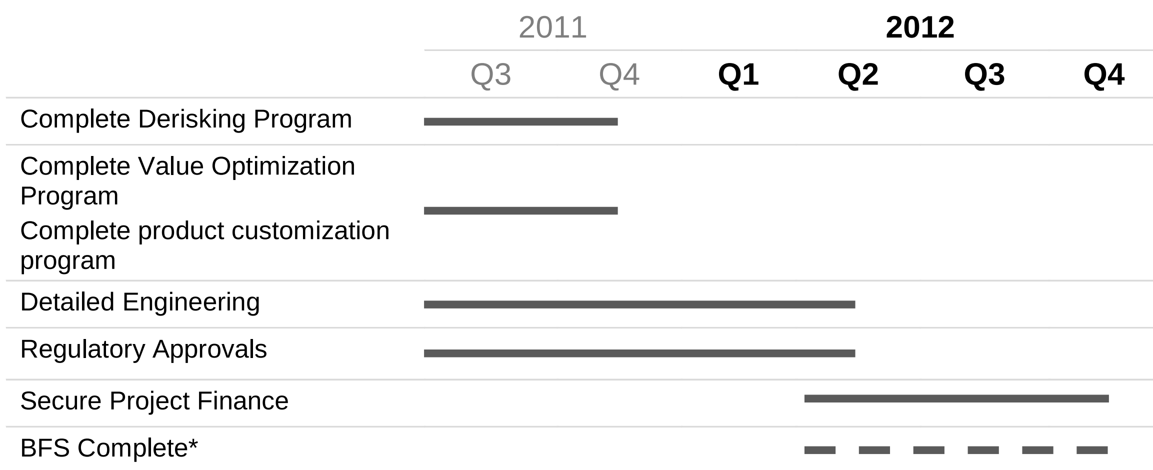
Using a 1% REE cut-off

OPERATIONS OVERVIEW

Nolans Project - Current Status and Forward Plan

The Company is well advanced through the Nolans Project Bankable Feasibility Study (BFS)**.**

All expert contractors and consultants are in place and there is considerable activity on every work stream. The Nolans Project scope was expanded to reduce risk, optimise value creation and complete tailoring products to customer quality needs. The BFS timeline is shown below:



* A range is shown as it remains subject to completion of all outstanding Optimisation work.

The Company was well funded at the end of the reporting period. A further $50M to $60M will be required during the next 12 months to complete the BFS. In October 2010 it was estimated that approximately $1Billion will be required as project financing to build the mine and rare earths processing complex. This requirement will be refined during the BFS. Discussions with potential providers of finance have commenced. During the BFS the detailed timetable for construction and commissioning of both the mine and rare earth processing complex will be developed. In the meantime, it is estimated that first production will be approximately two years after construction begins once project finance is in place.

OPERATIONS OVERVIEW

Exploration

Arafura carefully balances its priority to develop the Nolans Project with the need to deliver future growth through exploration success, as well as assessing new development opportunities.

The primary emphasis of the Company's exploration effort is to focus on rare earth opportunities in under explored parts of prospective geological regions. These include:

Rare Earths
Aileron-Reynolds Range (100% Arafura)

Location	Reynolds Range, about 135 km north-north-west of Alice Springs.
Area Size	2,029 km^2
Tenements	EL 23571, SEL 23671, EL 27335, EL 27336, EL 27337, SEL 28473, EL 28498, EL 28547
	Arafura also holds non-uranium exploration and development rights over adjoining tenements held by NuPower Resources Ltd (EL 24741 and EL 24548 – 2,434 km^2).

Iron Ore, Vanadium, Base Metals
Jervois (100% Arafura)

Location	290 km north-east of Alice Springs
Area Size	380 km^2
Tenements	EL 10215, EL 26318, EL 26812
	NuPower Resources Ltd holds uranium rights over EL 10215.

Gold
Mt Porter (100% Arafura less royalty interests)

Location	Pine Creek region, about 170 km south-east of Darwin
Area Size	8.6 km^2
Tenements	ML 23839, ERL 116
	Arafura also holds gold exploration and development rights on four adjoining tenements held by Territory Resources Ltd (AN 389, EL 10137, EL 22270 and EL 23237 – 58 km^2). All Mt-Porter – Frances Creek tenements are currently held for sale with Global Mineral Resources Ltd awaiting satisfaction of all sale terms and conditions.

OPERATIONS OVERVIEW

Gold

Kurinelli (100% Arafura)

Location	150 km south-east of Tennant Creek
Area Size	185 km^2
Tenements	AC 74 and MCC 950-953

Base Metals

Hammer Hill (100% Arafura)

Location	Harts Range, about 180 km north-east of Alice Springs
Area Size	522 km^2
Tenements	EL 9725, EL 10136
	NuPower Resources Ltd holds uranium rights over both tenements.

OPERATIONS OVERVIEW

Disclaimer

Important Notice

This Operations Overview contains certain statements which may constitute "forward-looking statements". Such statements are only expectations or beliefs and are subject to inherent risks and uncertainties which could cause actual values, results or performance achievements to differ materially from those expressed or implied in this Operations Overview. No representation or warranty, express or implied is made by Arafura Resources Limited ("Arafura Resources") that any forward-looking statement contained in this Operations Overview will occur, be achieved or prove to be correct. You are cautioned against relying upon any forward looking statement.

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This Operations Overview does not constitute an offer of securities in Arafura Resources, nor an invitation to apply for such securities. This Operations Overview does not provide investment advice or financial product advice. You should obtain professional advice and carry out your own independent investigations and assessment of the information in this Operations Overview (including any assumptions) before acting.

Information in this Operations Overview which is attributed to a third party source has not been checked or verified by Arafura Resources.

The information in this Operations Overview relates to exploration results, mineral resources or ore reserves is based on information compiled by Mr Richard Brescianini BSc (Hons). The information in this Operations Overview that relates to mineral resources or ore reserves is also based on metallurgical results and interpretation complied by Mr Steven Mackowski BAppSc.

Mr Brescianini is a Member of the Australian Institute of Geoscientists and he has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (The JORC Code)".

Disclaimer

Important Notice (Cont)

Mr Brescianini consents to the inclusion in this presentation of the matters based on his information in the form and context in which it appears.

Mr Mackowski is a Fellow of the Australasian Institute of Mining and Metallurgy and he has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the “Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (The JORC Code)”. Mr Mackowski consents to the inclusion in this presentation of the matters based on his metallurgical results and interpretation in the form and context in which it appears.

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 year ended 30 June 2011.

Directors

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

I J Laurance
S Ward
I J Kowalick
T R Jackson
I G Muir
S Lu
A Losada-Calderon
C S Tonkin*
L H Jones**
Ms L Reynolds***

* Mr Chris Tonkin was appointed as a non-executive director on the 1st of January 2011.
** Mr Lloyd Jones was appointed as a non-executive director on the 30th of August 2011.
*** Ms Loretta Reynolds was appointed as a non-executive director on the 16th of September 2011.

Principal activities

During the year, the principal continuing activities of the Group consisted of:

(a) Mineral processing technological feasibility evaluations;
(b) Mining and associated infrastructure, social and environmental feasibility evaluations; and
(c) Mineral exploration, definition and development

Dividends – Arafura Resources Limited

No dividends were paid during the year and the directors do not recommend the payment of a dividend.

Operating and financial review

The loss of the Group for the year after income tax was $7,461,996 (2010: $10,132,877).

Significant changes in the state of affairs

Significant changes in the state of affairs during the financial year were as follows:

(a) An increase in contributed equity of $87,501,323 (from $88,662,312 to $176,163,635) primarily as a result of Arafura's $90m capital raising. On the 14th of November 2010, Arafura issued 43,695,000 fully paid ordinary shares at $1.20 to sophisticated and institutional investors. Pursuant to ASX Listing Rule 7.1 Arafura required ratification for a further 31,305,000 shares at $1.20 at the EGM held on the 9th of December 2010. Arafura received approval from its shareholders and issued the second tranche of shares to complete the proposed capital raising. Funds from the capital raising are being used to complete the bankable feasibility study and resource development at the Nolan's bore.

Details	Number of shares	Issue Price	$
Opening balance 1/07/10	**290,640,342**		**88,662,312**
Placement - Tranche 1	43,695,000	$1.20	52,434,000
Placement - Tranche 2	31,305,000	$1.20	37,566,000
Total options exercised	2,340,000	$0.85 - $1.31	2,469,400
Share issue transaction costs	-	-	(4,968,077)
Closing balance 30/06/11	**367,980,342**		**176,163,635**

(b) 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) On the 15th of March 2011, Arafura appointed AMEC Minproc Limited as the Engineering Study Manager to advance the Nolan's Project Bankable Feasibility Study. AMEC Minproc are recognised as a first tier process consulting and EPCM organisation with considerable experience in developing feasibility studies and executing projects with complex metallurgical and chemical processes. Their key role in the BFS is to develop the engineering and cost estimates, to the level acceptable for project financing for the Rare Earths Complex at Whyalla in South Australia.

Significant changes in the state of affairs (cont)

(d) On the 23rd of June 2011 Arafura announced the expansion of its Bankable Feasibility Study primarily aimed at optimising the project by de-risking further through simplification increasing value creation and by tailoring the products to be produced to meet specific customer requirements. As a result of the scope change it is envisaged that the completion of the Bankable Feasibility Study will be in Q3 2011.

Matters subsequent to the end of the financial year

(a) Issue of employee options – the following options have been issued to employees of Arafura Resources Limited under the ESOP after the 30 June 2011 year end:

Grant Date	Number of Options	Exercise Price	Vesting Date	Expiry Date
15/07/2011	1,400,000	$0.96	16/07/2012	16/04/2014

(b) Arafura announced on the 27th of July 2011 changes to its existing board structure via Arafura's 'Board Refresh Program'. The following changes are:

- Mr Ian Kowalick has been appointed Deputy Chairman as of the 27th of July 2011.
- Mr Ian Laurance will step down as Chairman at the next AGM (to be replaced by Mr Ian Kowalick).
- Ms Shasha Lu will transition to non-executive director after completing her executive director duties prior to the AGM in November 2011.
- Arafura intends to seek three new independent non-executive directors and once appointed, Messrs Muir, Jackson and Laurance will retire by the end of their current terms.
- At the time of this report, two new independent non-executive directors had been appointed.(refer (e), (f) below).

(c) In August 2011 Arafura executed a Letter of Intent (LOI) with ThyssenKrupp Metallurgical Products GmbH a daughter company of ThyssenKrupp, a major German integrated materials and technology company.

The LOI includes;

- Development of an exclusive long-term commercial agreement between the parties for the sale of Arafura's Rare Earth Oxide products in Germany;
- Arafura and ThyssenKrupp Metallurgical Products working together to pursue potential funding for the Nolans Project, and
- ThyssenKrupp Metallurgical Products providing Arafura with logistical advice and assistance.

Matters subsequent to the end of the financial year (cont)

It is envisaged that this agreement will account for approximately 15% of Arafura's targeted annual rare earth oxides production from its Nolans Project. The final amount will be subject to the completion of a formal commercial agreement.

(d) On the 22nd of August 2011, Arafura released to the market that it confirmed the presence of substantial rare earth mineralisation at depth and across strike. A revised estimate for Nolan's Bore is anticipated by the end of 2011.

The best mineralised intercepts include:

- 31.7 meters @ 2.3% REO, 10.4% P_2O_5 and 0.39 lb/t U_3O_8 from 161.9 metres in NBRD101
- 29.8 metres @ 3.5% REO, 15.4% P_2O_5 and 0.57 lb/t U_3O_8 from 126.1 metres in NBRD103
- 16.0 metres @ 4.4% REO, 21.4% P_2O_5 and 0.73 lb/t U_3O_8 from 233.4 metres in NBRD103
- 37.5 metres @ 3.7% REO, 17.0% P_2O_5 and 0.65 lb/t U_3O_8 from 154.0 metres in NBRD104
- 17.3 metres @ 4.5% REO, 22.1% P_2O_5 and 0.81 lb/t U_3O_8 from 218.1 metres in NBRD104

The above results coincide with the additional Rare Earth's identified and released to the market on the 28th of July 2011.

(e) On the 30th of August 2011, Mr. Lloyd Jones was appointed as non-executive director of Arafura. Mr. Jones has been involved with the chemical industry for many years and more recently in private equity. He has a long and distinguished career in chemicals at very senior executive management levels. Mr. Jones has substantial international experience having worked internationally in Australia, USA, China and Japan, and with responsibility for extensive operations. During his period involved with private equity, he was based in Hong Kong. The wide-ranging nature of Mr. Jones' career means that he has been able to build up a very broad range of business contacts.

(f) On the 16th of September 2011, Ms Loretta Reynolds was appointed as non-executive director of Arafura. Ms Reynolds is a corporate lawyer specialising in complex commercial transactions and mergers and acquisitions. Ms Reynolds graduated from the University of Adelaide with a Bachelor of Economics (BEc) and Bachelor of Laws (LL.B). She also has a Graduate Diploma in Applied Finance and Investment. She is a Fellow of both the Australian Institute of Company Directors and the Financial Services Institute of Australasia.

(g) Subsequent to year end and including up to the date of this report, Arafura entered into two individual material commitments totalling $2.6 million to advance work on the expanded bankable feasibility study and resource definition program.

No other matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may significantly affect:

(a) the group's operations in future financial years, or
(b) the results of those operations in future financial years, or
(c) the group's state of affairs in future financial years.

Likely developments and expected results of operations

The Group's primary focus is the development of the Nolans rare earths-phosphate-uranium project. The deposit has a JORC Compliant resource to sustain production of 20,000(t) p.a. Rare Earth Oxides over a mine life of twenty years. As announced to the market on the 14th of February 2011, Arafura has been undertaking a major drilling program at its Nolan's Bore in the Northern Territory.

Likely developments and expected results of operations (cont)

The purpose of the 2011 drilling program is:

- to reduce resource risk by upgrading lower confidence (Inferred) resources into higher confidence (Indicated) resources,
- to assess the expansion potential of the resource, primarily at depth but also along strike, and
- to provide sufficient geotechnical and metallurgical data for mine design and beneficiation flow sheet development.

Some results have been released subsequent to the reporting date (refer above).

As announced to the market on the 23rd of June 2011, the Group will continue to progress works to finalise the expanded Bankable Feasibility Study in the third quarter of 2012.

Environmental regulation

The Group is subject to environmental regulations and is compliant with all aspects of environmental regulation on its exploration activities. The directors are not aware of any environmental law that is not being complied with

Greenhouse gas and energy data reporting requirements

The Directors have considered compliance with the National Greenhouse and Energy Reporting Act 2007 which requires entities to report annual greenhouse gas emissions and energy use. For the first measurement period 1 July 2010 to 30 June 2011, the directors have assessed that there are no current reporting requirements, but Arafura may be required to do so in the future.

Information on directors

Ian James Laurance, AM. Chairman - *Non-executive director.*

Experience and expertise

Ian Laurance represented the electorate of Gascoyne in the Western Australian Parliament for 14 years and at various times held the Ministerial Portfolios of Housing, Tourism, Lands, Environment and Regional Development. In recent years, Ian has gained extensive experience in chairing public companies as well as various semi-government and statutory bodies, including the Western Australian Sports Trust and the Midland Redevelopment Authority.

In 2006, Ian was made a Member of the Order of Australia (AM) for his services to the Tourism Industry and to the community as a Member of the Western Australian Parliament and to sporting, environmental and charitable bodies.

Ian is also Chairman of the not-for-profit organisation, Perth Convention Bureau.

Other current directorships

Non-executive director and Chairman of Axiom Properties Limited.

Former directorships in the last 3 years

None.

Special responsibilities

Chairman of the Board.
Member of the remuneration & nomination Committee (Chairman of this Committee up to the 1st of January 2011).

Interests in shares and options

20,000 ordinary shares in Arafura Resources Limited *(direct).*
100,000 ordinary shares in Arafura Resources Limited *(indirect).*
2,000,000 unlisted options in Arafura Resources Limited *(indirect).*

Information on directors (cont)

Stephen Ward, BSc (Hons) Chemistry, PhD Physical Chemistry.
Managing Director and Chief Executive Officer.

Experience and expertise
Stephen (Steve) Ward has over 30 years experience in the Chemical, mining and minerals processing industries. He is a graduate from the University of Nottingham; BSc Hons Chemistry (1976); PhD in Physical Chemistry (1979) and is a graduate of the Australian Institute of Company Directors.

Steve gained 20 years broad experience with titanium pigment producer Tioxide Group Ltd (now Huntsman Pigments) where he worked in production, operational, engineering and technical roles at the Australian production facility. He became the inaugural General Manager responsible for the development and start-up of Tioxide's manufacturing facilities in Malaysia (early 90's). He subsequently moved to business management roles based in the UK and became an executive director of the global company with general management responsibility for the European, Middle East and Southern Africa business unit.

He then spent 7 years with Australian publicly listed minerals sands producer Iluka where he was President of the USA mining and processing operations and global Executive General Manager responsible for sales and marketing and business development.

He then formed his own consulting business providing services to the resources and chemicals industries.

He subsequently joined Cristal, a Saudi Arabian based titanium pigment producer as Senior Vice President Strategy and Development for a 3 year period. Steve was appointed a non-executive director of Arafura in 2007 and became Managing Director and Chief Executive officer at the beginning of 2010. He is a former non-executive director of Consolidated Rutile Ltd and former Executive Chairman of Bemax Resources Ltd.

Other current directorships
None.

Former directorships in the last 3 years
Executive Chairman of Bemax Resources Ltd.

Special responsibilities
None.

Interests in shares and options
145,000 ordinary shares in Arafura Resources Limited *(direct).*
1,500,000 unlisted options in Arafura Resources Limited *(direct).*

Information on directors (cont)

Irvin (Mick) Graham Muir BA (Econ). *Non-executive director.*

Experience and expertise

Irvin Muir is a Western Australian business man with over 30 years experience in the mining industry. He is an economics graduate and has worked in the securities industry and for the Western Australian Chamber of Mines in Kalgoorlie.

Other current directorships

Non-Executive director of NuPower Resources Limited.

Former directorships in the last 3 years

None.

Special responsibilities

Member of the remuneration & nomination committee.

Interests in share and options

2,513,501 ordinary shares in Arafura Resources Limited *(direct).*
483,500 ordinary shares in Arafura Resources Limited *(indirect).*

Information on directors (cont)

Ian John Kowalick BSc (Hons), BEc., AM *Non-executive director (Deputy Chairman).*

Experience and expertise

Ian Kowalick has qualifications in science, engineering, economics and finance. In the private sector, he has worked in technical and project consulting, economic and business analysis for resources companies, banking and investment. From 1995 to 2000, he held the most senior management position in the South Australian public sector, providing him with an extensive understanding of government relations and the management of their regulatory and planning requirements.

Other current directorships

Non-executive director of NuPower Resources Limited.

Non-executive director and Chairman of Playford Capital Limited.

Non-executive director and Chairman of Syngas Limited.

Former directorships in the last 3 years

None.

Special responsibilities

Chairman of the audit & risk committee.

Chairman of the remuneration & nomination committee effective as of the 1st of January 2011.

Interests in shares and options

550,000 ordinary shares in Arafura Resources Limited *(indirect).*

1,500,000 unlisted options in Arafura Resources Limited *(indirect).*

Information on directors (cont)

Terry Roy Jackson AM, KLJ. *Non-executive director.*

Experience and expertise

Terry Jackson is a Western Australian industrialist with a substantial, diverse share portfolio. His private group of companies has interests in innovative manufacturing, intellectual property, import-export, commercial and residential property, property development and wine making. With an electronic engineering background, he worked for seven years in the communications industry and thereafter for seven years in management, sales and service of industrial and scientific research equipment. Self employed for 38 years, he has travelled and traded with many overseas corporations including a research partnership with Exxon, Toyota, Johnson Controls and Austrian Steel. He is a foundation Fellow of the Australian Institute of Company Directors, a Knight in the Order of Saint Lazarus of Jerusalem, a recipient of the Australian Centenary Medal and a Member of The Order of Australia for his contributions to the arts, the church, industry and international trade.

Other current directorships

Uranium Australia Ltd.

Former directorships in the last 3 years

None.

Special responsibilities

Member of the audit & risk committee.

Interests in shares and options

5,256,535 ordinary shares in Arafura Resources Limited *(indirect).*
1,500,000 unlisted options in Arafura Resources Limited *(indirect).*

Information on directors (cont)

Shasha Lu PhD, Masters Degree. *Executive Director*

Experience and expertise

Ms Lu holds a Degree in Medicine from the Tianjin University, China and a Masters Degree from Nanjing University, China. She is currently studying for an EMBA in Nanjing University. Ms Lu has worked as a Postdoctoral fellow at the Karolinska Institute in Stockholm, Sweden and as a Visiting Scholar at the Geneva University during which time, she undertook some work in the World Health Organisation. As an employee of Arafura and based in Nanjing in the Peoples Republic of China, Ms. Lu is responsible for Business Development opportunities and synergies for Arafura within China.

At the 2011 Annual General Meeting Ms Lu will become a non-executive Director of the company.

Other current directorships

Globe Metals and Mining Ltd.

Former directorships in the last 3 years

None.

Special responsibilities

None.

Interests in shares and options

500,000 unlisted options in Arafura Resources Limited *(indirect).*

Information on directors (cont)

Alex Losada-Calderon PhD, BSc (Hons). *Non- Executive Director*

Experience and expertise

Dr Losada-Calderon is currently working for TAE Resources Pty Ltd, a private consulting company. Until the end of July 2009, Dr Losada-Calderon was the Vice-President of Exploration for Southwestern Resources Corp (SWG) located in Vancouver, Canada. SWG has its major projects in Peru and China. SWG was taken over by Hochschild Mining PLC of London. Dr Losada-Calderon has a PhD in Economic Geology and Geochemistry from Monash University, Australia and holds Honours in Geological Science from the Universidad Nacional del Sur, Argentina. In addition, Dr Losada-Calderon has undertaken various post graduate business and management courses. Dr Losada-Calderon has 25 years experience working worldwide as a geologist, project manager and country general manager for various mining and engineering companies. He has been involved in metallurgical research in government organisations; and feasibility studies and the development of major mining projects in the Caribbean, Latin America and China. Dr Losada-Calderon is a Member of The Australasian Institute of Mining and Metallurgy and a Member of the Australian Institute of Company Directors.

Other current directorships

None.

Former directorships in the last 3 years

None.

Special responsibilities

None.

Interests in shares and options

1,100,000 unlisted options in Arafura Resources Limited *(direct).*

Information on directors (cont)

Christopher Stephen Tonkin BSc (Hons), BA (Econ & Pol), MBA.
Non-executive director.

Experience and expertise
Chris Tonkin has over 25 years experience as a senior business executive with a broad industry background in business generation, management and strategy development. He has a substantial track record in structuring and arranging complex financings for companies and projects, in Australia and internationally, across all major industry sectors and particularly the resources, power and telecommunications sectors.

He began his career as a metallurgist and environmental specialist, diversifying into commercial roles at several major industrial companies and subsequently project finance, corporate and project advisory roles at AIDC, the Chase Manhattan Bank, KPMG Corporate Finance and ANZ, where his most recent role was Head of Natural Resources, Project and Structured Finance.

Chris is a Graduate of the Australian Institute of Company Directors and a Member of the Finance and Treasury Association.

Other current directorships
None.

Former directorships in the last 3 years
None.

Special responsibilities
Member of the audit and risk committee.

Interests in shares and options
None.

Company Secretary

Gavin John Lockyer BBus, CA.

Gavin Lockyer is a Chartered Accountant with over 20 years experience. He joined Arafura in 2006 and prior to this held various senior financial positions with companies involved in the mining and investment banking industries.

Meeting of directors

The number of meetings of the Company's Board of directors, the number of meetings of each Board committee held during the year ended 30 June 2011 and the number of meetings attended by each director were:

	Board meetings		Meetings of committees			
Director	**Full meetings of directors held**	**Full meetings if directors attended**	**Audit & risk committee meetings held**	**Audit & risk committee meetings attended**	**Remuneration & nomination committee held**	**Remuneration & nomination committee attended**
I J Laurance	13	13	n/a	n/a	8	8
S Ward*	13	13	n/a	n/a	3	1
I J Kowalick	13	13	3	3	8	8
T R Jackson	13	9	3	3	n/a	n/a
S Lu	13	12	n/a	n/a	n/a	n/a
A Losada-Calderon	13	12	n/a	n/a	n/a	n/a
I G Muir**	13	13	2	2	5	4
C S Tonkin***	7	6	1	1	n/a	n/a

I J Laurance, S Ward, T R Jackson, S Lu and A Losada-Calderon are not members of the audit & risk committee.

C S Tonkin, T R Jackson, S Lu and A Losada-Calderon are not members of the remuneration & nomination committee.

* S Ward ceased as a member of the Remuneration and nomination committee as of January 2011.

** I G Muir was appointed to the remuneration and nomination committee and ceased as a member of the audit and risk committee as of January 2011.

*** C S Tonkin was appointed as a non-executive director on the 14th of December 2010, with effect on the 1st of January 2011. Mr Tonkin is also a member of the audit and risk committee.

Remuneration report (audited)

The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration
B Details of remuneration
C Service agreements
D Share-based compensation
E Additional information

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

A Principles used to determine the nature and amount of remuneration

All compensation arrangements for directors and the Group's executives are determined at Board level after taking into account the competitive rates prevailing in the market place.

Remuneration level of the directors and the Group's executives are set by reference to other similar resources and chemical companies with similar scale and risk profiles. They are set to attract and retain executives capable of managing the Group's operations. Remuneration of non-executive directors is determined by the Board within the maximum approved by shareholders from time to time. The Board undertakes an annual review of its performance. No bonuses are paid to non-executive directors.

The Remuneration & Nomination Committee engaged independent consultants to benchmark director's fees against the prevailing market conditions for the period commencing 1st July 2011. Independent consultants were also engaged to benchmark the Managing Director and CEO's against prevailing market conditions effective from the 1st of January 2011.

The Group's executive remuneration framework aligns executive remuneration with the achievement of strategic objectives and the creation of value to shareholders, and conforms to market practice for delivery of reward. The Board ensures that the executive remuneration is competitive, reasonable and acceptable to shareholders and aligned with performance.

Remuneration report (audited) - (cont)

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board, through the Remunerations Committee has received advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The Chairman's fee is determined independently to the fees of non-executive directors based on comparative roles in the external market.

The Chairman is not present at any discussion relating to the determination of his own remuneration.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at $750,000 per annum.

The following fees have applied:

	Year ended 30 June 2011	From 1 July 2011
Base Fees		
Chairman	$105,000	$135,000
Deputy Chairman	-	$102,500
Other non-executive directors	$52,500	$70,000
Nominee directors	$52,500	$60,000
Additional Fees		
Audit & risk committee – Chairman	$10,000	*
Audit & risk committee – member	$5,000	*
Remuneration & nomination committee - Chairman	$10,000	*
Remuneration & nomination committee - member	$5,000	*

*****_Directors are now expected to serve on Board sub-committees on a reasonable and appropriate basis. No additional fees are paid._

The current base remuneration was last reviewed with effect from 1 July 2011.

The above fees are per annum. An additional 12% pa superannuation is payable on these amounts.

There is no direct link between remuneration paid to any non-executive directors and corporate performance. There is no termination, retirement or accumulating and vesting annual leave benefits for non-executive directors.

The Chairman receives a pro-rata reimbursement for telecommunications. For a part of the financial year, the Company also provided the Chairman with a motor vehicle parking bay.

Remuneration report (audited) - (cont)

Executive pay

The executive pay and reward framework has four components:

- base pay and benefits;
- short-term performance incentives (cash based);
- long-term incentives through participation in the Employee Share Option Plan or via share rights; and
- other remuneration.

The combinations of these comprise the executive's total remuneration.

Base pay and benefits

The base pay is inclusive of statutory superannuation and is structured as a total employment cost package, which may be delivered as a mix of cash and prescribed non-financial benefits at an executive's discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. External remuneration consultants provide analysis to ensure the base pay is set to reflect the market for a comparable role. Base pay for senior executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed upon promotion. There are no guaranteed base pay increases fixed in any senior executive's contract. Executives are also entitled to a company funded car park, as well as a Health and Well Being allowance amounting to $1,000. ($1,100 from 1st July 2011).

All Key Management Personnel including the Managing Director & CEO received salary increases ranging between a 5%-12% gross increase on total fixed remuneration (base salary plus superannuation) effective on 1 July 2011.

Short-term performance incentives

Short-term incentives are used to encourage and reward performance of executive directors, officers and senior management for their role in achieving corporate objectives and are directly linked to the creation of shareholder wealth. During the period, the Board reviewed the remuneration package for the Managing Director & CEO taking into consideration market trends and independent expert advice. For the calendar year ended 31 December 2010 an incentive payment was made to the Managing Director and CEO totalling $846,300 for Short Term and Long Term Incentive schemes that were in place for the 2010 calendar year.

Remuneration report (audited) - (cont)

For the year ended 30 June 2011, there were two KPI's for executives which are totally aligned with shareholder interests; relating to progress towards the completion of the Bankable Feasibility Study and progress towards securing project finance. The Remuneration & Nomination committee is responsible for assessing whether KPIs are met.

The Managing Director & CEO's short term incentives are based on a calendar year to a maximum of 60% of total fixed remuneration (TFR – Base Salary and Superannuation) which includes up to 40% of TFR upon various targets being met and 20% of TFR for each year of completed service.

Senior management receive up to 30% of TFR upon KPI's being met.

For the year ended 30 June 2011 no Short-term incentives were paid other than to the Managing Director.

Long-term performance incentives

Long-term performance-linked remuneration is designed for rewarding executive directors, officers and senior management for their role in achieving corporate objectives and is directly linked to the creation of shareholder value.

The Managing Director & CEO can receive a maximum of 45% of TFR each year based on achievement of certain targets and payable in the form of performance rights to shares subject to shareholder approval at a later date. Subject to shareholder approval at the AGM in November 2011, Dr Ward will be issued 3,500,000 options as part of his long-term performance incentive.

No bonus payments other than as indicated in the remuneration table on page 44 were paid during the reporting period.

Senior management receive Long Term Incentives which are provided as options issued either under the terms and conditions of the Group's Employee Share Option Plan or otherwise under the terms and conditions determined at the time of issue by the Board.

Under the Company's Option Plan approved by shareholders at the general meeting held on 25 November 2010, the Board has absolute discretion to:

- invite eligible persons to apply for a specified number of options;
- set performance criteria; and
- set option exercise prices and expiry dates.

Under the terms and conditions of the plan, options lapse in a number of circumstances including cessation as an employee or for fraudulent or dishonest actions.

Remuneration report (audited) - (cont)

B Details of remuneration

Details on the remuneration of the directors, the key management personnel of the Group (as defined in AASB 124: *Related Party Disclosures*) and specified executives of Arafura Resources Limited are set out in the following tables.

The key management personnel include the top 5 most highly remunerated of the Group and company and consist of the directors of Arafura Resources Limited and those executives that report directly to the Managing Director & CEO being:

- R Brescianini – *General Manager Strategic Development and Exploration*
- J Ganser – *General Manager of Projects*
- G J Lockyer – *Chief Financial Officer and Company Secretary*
- N Graham* – *General Manager of Operations*
- S J Mackowski** – *General Manager of Technology*

** Upon the appointment of Neil Graham on the 1st of September 2011, Brian Fowler was no longer considered a Key Management Person for the purposes of the Remuneration Report.*

*** As announced on the 1st of June 2011, Steve Mackowski will cease full-time employment with Arafura on the 1st of September 2011.Steve will provide ongoing consulting services to the company on a part-time basis over the following 12 month period.*

Remuneration report (audited) - (cont)

	Short–term benefits			Post–employment benefits	Long-term benefits		Share-based payments		
2011	Cash salary and fees	Other	Non-monetary benefits	Superannuation	Long service leave	Termination benefits	Options	Total	Percent - consisting of options
Name	$	$	$	$	$	$	$	$	%
Non-executive directors									
I J Laurance	112,500	-	2,092	13,650	-	-	-	128,242	-
I J Kowalick	70,000	-	-	8,450	-	-	-	78,450	-
T R Jackson	57,500	-	-	7,150	-	-	-	64,650	-
I G Muir	57,708	-	-	7,150	-	-	-	64,858	-
A Losada-Calderon	52,500	-	-	6,325	-	-	440,677	499,502	88%
C S Tonkin(1)	28,750	-	-	2,875	-	-	-	31,625	-
Executive directors									
S Ward(2)	758,798	846,300	2,092	68,217	816	-	-	1,676,223	-
S Lu	237,715	-	-	28,406	-	-	75,434	341,555	22%
Other key management personnel (Group)									
S J Mackowski	247,024	-	2,092	24,811	7,930	-	191,108	472,965	40%
R Brescianini	251,459	-	1,413	25,000	3,137	-	191,108	472,117	40%
B. Fowler(3)	32,604	-	172	4,334	173	-	12,572	49,855	25%
N Graham(3)	209,167	-	2,092	25,100	59	-	224,633	461,051	49%
J Ganser(4)	244,170	-	2,092	21,975	69	-	300,298	568,604	53%
G J Lockyer	249,101	-	2,092	26,128	7,172	-	191,108	475,601	40%
Total	**2,608,996**	**846,300**	**14,137**	**269,571**	**19,356**	**-**	**1,626,938**	**5,385,298**	**30%**

(1) Chris Tonkin was appointed as director on 1 January 2011.

(2) Steve Ward was paid $322,400 and $523,900 in cash bonuses for meeting both short and long term key performance indicators during the 2010 calendar and 2011 financial year.

(3) Neil Graham was appointed as General Manager of Operations on 1 September 2010. As a result, Brian Fowler is no longer classified as a key management person. Brian's remuneration has been recorded to represent his time spent as a key management person up until the appointment of Neil Graham.

(4) John Ganser was appointed as General Manager Projects on 13 September 2010.

Remuneration report (audited) - (cont)

	Short–term benefits			Post–employment benefits	Long-term benefits		Share-based payments		
2010 **Name**	**Cash salary and fees** **$**	**Bonus** **$**	**Non-monetary benefits** **$**	**Superannuation** **$**	**Long service leave** **$**	**Termination benefits** **$**	**Options** **$**	**Total** **$**	**Percent - consisting of options** **%**
Non-executive directors									
I J Laurance	105,000	-	7,260	13,650	-	-	292,650	418,560	70%
S Ward	37,290	-	-	-	-	-	-	37,290	-
I J Kowalick	65,000	-	-	8,450	-	-	219,488	292,938	75%
T R Jackson	55,000	-	-	7,150	-	-	219,488	281,638	78%
I G Muir	55,000	-	-	7,150	-	-	-	62,150	-
A Losada-Calderon(8)	38,269	-	-	3,642	-	-	-	41,911	-
Executive directors									
S Ward(5)	355,505	-	3,791	31,995	-	-	219,488	610,779	36%
A J Stephens(6)	177,585	-	47,867	18,229	-	-	170,847	414,528	41%
S Lu(7)	213,375	-	1,995	22,838	-	-	144,146	382,354	38%
Other key management personnel (Group)									
S J Mackowski	229,117	-	7,700	29,785	-	-	210,803	477,405	44%
R Brescianini	228,375	-	2,304	29,689	-	-	210,803	471,171	45%
B W Fowler	185,237	-	4,137	21,302	-	-	170,809	381,485	45%
G J Lockyer(9)	228,375	25,000	7,700	32,939	-	-	210,803	504,817	42%
Total	**1,973,128**	**25,000**	**82,754**	**226,819**	**-**	**-**	**2,069,325**	**4,377,026**	**47%**

(5) Steve Ward was appointed Managing Director & CEO on 1 January 2010. Prior to this he was a non-executive director.

(6) Alistair Stephens resigned as Managing Director on 17 September 2009, and as CEO on 31 December 2009.

(7) Lu Shasha was appointed as a nominee executive director on 22 July 2009.

(8) Alex Losada-Calderon was appointed as a nominee non-executive director on 25 September 2009.

(9) Gavin Lockyer was paid a bonus for extra duties performed during the period between the resignation of AJ Stephens as Managing Director and the appointment of S Ward as Managing Director & CEO.

Remuneration report (audited) - (cont)

C Service agreements

On appointment to the Board, all non-executive directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the office or director.

Remuneration and other terms of employment for the Managing Director & CEO and other key management personnel are also formalised in service agreements. Each of these agreements provide for the provision of performance-related cash bonuses, other benefits including, parking and participation where eligible in the Arafura Share Option Plan. Other major provisions of the agreements relating to remuneration are set out below:

S Ward, *Managing Director & Chief Executive Officer*

- No term of agreement.
- Base salary inclusive of superannuation for the year ended 30 June 2011 of $846,000 after being reviewed upward from $806,000 starting 1 January 2011.
- Base salary inclusive of superannuation from 1 July 2011 of $888,300.
- Payment of termination benefit on early termination by the employer or employee, other than for gross misconduct, equal to six months of the total fixed remuneration.
- Payment of termination benefit on early termination by the employer on the Project not proceeding for reasons beyond the CEO's control, equal to twelve months of total fixed remuneration at the time notice is given and 50% of any bonus due and eligible to be paid up to the next payment date.

G J Lockyer, *Chief Financial Officer & Company Secretary*

- No term of agreement.
- Base salary, inclusive of superannuation, for the year ended 30 June 2011 of $300,000 after being revised upward from $261,888 starting 1 July 2010.
- Base salary inclusive of superannuation, from 1 July 2011 of $330,000.
- Long Term Incentive plan, on the 15th of July 2011, 200,000 options were granted in accordance with Arafura's ESOP. Further details can be found at note 31.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to three months of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to six months of the base salary.

Remuneration report (audited) - (cont)

S J Mackowski, *General Manager of Technology*

- No term of agreement.
- Base salary, inclusive of superannuation, for the year ended 30 June 2011 of $273,000.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to three months of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to six month of the base salary.

R Brescianini, *General Manager Strategic Development and Exploration*

- No term of agreement.
- Base salary inclusive of superannuation, for the year ended 30 June 2011 of $273,000.
- Base salary inclusive of superannuation, from 1 July 2011 of $300,000.
- Long Term Incentive plan, on the 15th of July 2011, 200,000 options were granted in accordance with Arafura's ESOP. Further details can be found at note 31.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to three months of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to six months of the base salary.

N Graham, *General Manager of Operations*

- No term of agreement.
- Base salary inclusive of superannuation for the year ended 30 June 2011 of $280,000.
- Base salary inclusive of superannuation, from 1 July 2011 of $330,000.
- Arafura paid $19,760 in relocation costs in order for Mr. Graham to fulfil his duty as General Manager of Operations.
- 750,000 options were granted in accordance with Arafura's ESOP upon commencement with the Company. Further details can be found at note 31.
- Long Term Incentive plan, on the 15th of July 2011, 500,000 options were granted in accordance with Arafura's ESOP. Further details can be found at note 31.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to three months of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to six months of the base salary.

Remuneration report (audited) - (cont)

J Ganser, *General Manager of Projects*

- Fixed term 4 years commencing 13 September 2010.
- Base salary inclusive of superannuation for the year ended 30 June 2011 of $330,000.
- Base salary inclusive of superannuation, from 1 July 2011 of $370,000.
- 750,000 options were granted in accordance with Arafura's ESOP upon commencement with the Company. Further details can be found at note 31.
- Long Term Incentive plan, on the 15th of July 2011, 500,000 options were granted in accordance with Arafura's ESOP. Further details can be found at note 31.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to three months of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to three months of the base salary.

D Share-based compensation

Options over shares in Arafura Resources Limited are granted by the Board under the Arafura Resources Limited Share Option Plan which was approved by shareholders at the 2010 annual general meeting.

Options are granted for no consideration and generally have a term of three years. 100% of each tranche vests and is exercisable in accordance with the tables below.

The terms and conditions of each grant of options affecting remuneration in the previous, present or future reporting periods are as follows:

Grant date	Date vested and exercisable	Expiry date	Exercise price	Model option value	% Vested
25-May-07	30-Jun-08	30-Jun-11	$1.72	$0.87	100%
25-May-07	30-Jun-08	30-Jun-11	$1.72	$0.96	100%
2-Oct-07	2-Oct-08	30-Jun-11	$1.31	$1.13	100%
17-Oct-07	17-Oct-08	30-Jun-11	$1.31	$0.57	100%
12-Nov-07	12-Nov-08	30-Jun-11	$1.70	$0.43	100%
1-Jul-08	31-Dec-09	31-Dec-12	$1.19	$0.40	100%
17-Jul-08	31-Dec-09	31-Dec-12	$1.19	$0.38	100%
2-Sep-08	31-Dec-09	31-Dec-12	$1.19	$0.39	100%
30-Jun-09	31-Dec-10	31-Dec-13	$0.85	$0.43	100%
21-Jul-10	20-Jul-11	20-Jul-13	$0.75	$0.31	-
1-Sep-10	31-Aug-11	31-Aug-13	$0.98	$0.36	-
13-Sep-10	31-Aug-11	14-Sep-13	$1.08	$0.49	-
25-Nov-10	24-Nov-11	26-Nov-13	$1.54	$0.67	-

Options granted under the plan carry no dividend or voting rights.

Remuneration report (audited) - (cont)

The exercise price of the options issued during the 2011 financial year is based on a VWAP (volume weighted average price) plus 30% at which the company's shares are traded on the Australian Stock Exchange during the last 15 days up to and including the date of grant.

When exercisable, each option is convertible into one ordinary share. Details of options over ordinary shares in the Group provided as remuneration to each director of the Group and each of the key management personnel of the Group are set out below. When exercisable, each option is convertible into one ordinary share of Arafura Resources Limited. Further information on the options is set out in note 22 to the financial statements.

The options expire on the earlier of their expiry date or one month after resignation of the employee (whether vested or not) or upon termination of their employment (unless the Board decides otherwise).

Vesting of the options is not subject to any conditions other than it be at or subsequent to the vesting date and before the expiry date. The terms and conditions of each grant of options affecting remuneration in the previous, present or future reporting periods are as follows:

Name	Number of options granted during the year	Value of options at grant date $	Number of options vested during the year	Number of options lapsed during the year	Value of lapsed options $
Directors of Arafura Resources Limited					
I J Laurance	-	-	-	-	-
S Ward	-	-	-	-	-
I J Kowalick	-	-	-	-	-
T R Jackson	-	-	-	-	-
I G Muir	-	-	-	-	-
S Lu	-	-	-	-	-
A Losada-Calderon	1,100,000	739,200	-	-	-
C S Tonkin	-	-	-	-	-
Other key management personnel of the group					
G J Lockyer	500,000	153,000	500,000	200,000	174,623
S J Mackowski	350,000	107,100	500,000	200,000	174,623
R Brescianini	350,000	107,100	500,000	200,000	174,623
B W Fowler	-	-	500,000	200,000	86,369
N Graham	750,000	270,750	-	-	-
J Ganser	750,000	364,500	-	-	-

The assessed fair value at grant date of the options granted to individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables in this report. Fair values at grant date are independently determined using the Binomial option pricing model that take into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and the expected price volatility of the underlying share and the risk free interest rate of the term of the option.

Remuneration report (audited) - (cont)

The model inputs in determining the value for options granted during the year ended 30 June 2011 are contained in note 31 of the notes to the financial statements.

Shares provided on exercise of remuneration options

Details of ordinary shares in the Company provided as a result of the exercise of remuneration options to each director of Arafura Resources Limited and other key management personnel of the Group are set out below:

Name	Date of exercise of options	Number of ordinary shares issued in exercise of options during the year	Fair value of options exercised $
Directors of Arafura Resources Limited			
I J Laurance	-	-	-
S Ward	-	-	-
I J Kowalick	-	-	-
T R Jackson	-	-	-
I G Muir	-	-	-
S Lu	-	-	-
A Losada- Calderon	-	-	-
C S Tonkin	-	-	-
Other key management personnel of the Group			
G J Lockyer	-	-	-
S J Mackowski	19/10/2010	250,000	99,260
	5/01/2011	250,000	99,260
	5/01/2011	500,000	216,811
R Brescianini	19/10/2010	250,000	99,260
	5/01/2011	250,000	99,260
B W Fowler	-	-	-
N Graham	-	-	-
J Ganser	-	-	-
Total		**1,500,000**	**613,851**

Employee share scheme

None of the directors of Arafura Resources Limited are eligible to participate in the Company's employee share option scheme without prior shareholder approval.

E Additional information

Bonuses & share based compensation

Information in relation to the percentage of cash bonuses paid and forfeited, options vested and forfeited and the maximum value of options yet to vest which has been determined to be the fair value at the grant dates less the expense incurred in the period ended 30 June 2011 is detailed below:

Remuneration report (audited) - (cont)

	Bonus		Options				
	Paid	Forfeited		Vested	Forfeited	Financial years in which options may vest	Maximum total value of grant yet to vest
Name	%	%	Year	%	%	Year	$
I J Laurance	-	-	2011	-	-	-	-
	-	-	2010	-	-	-	-
	-	-	2009	-	-	-	-
	-	-	2008	100	-	-	-
I J Kowalick	-	-	2011	-	-	-	-
	-	-	2010	-	-	-	-
	-	-	2009	-	-	-	-
	-	-	2008	100	-	-	-
T R Jackson	-	-	2011	-	-	-	-
	-	-	2010	-	-	-	-
	-	-	2009	-	-	-	-
	-	-	2008	100	-	-	-
S Ward	100	-	2011	-	-	-	-
	-	-	2010	-	-	-	-
	-	-	2009	-	-	-	-
	-	-	2008	100	-	-	-
I G Muir	-	-	2011	-	-	-	-
	-	-	2010	-	-	-	-
	-	-	2009	-	-	-	-
	-	-	2008	-	-	-	-
S Lu	-	100	2011	-	-	-	-
	-	-	2010	-	-	-	-
	-	-	2009	100	-	2011	216,811
A Losada-Calderon	-	-	2011	-	-	-	298,523
	-	-	2010	-	-	-	-
	-	-	2009	-	-	-	-
C S Tonkin	-	-	2011	-	-	-	-
S J Mackowski	-	100	2011	-	-	2012	5,885
	-	-	2010	-	-	-	-
	-	-	2009	100	-	2011	415,332
	-	-	2008	100	100	-	-
R Brescianini	-	100	2011	-	-	2012	5,885
	-	-	2010	-	-	-	-
	-	-	2009	100	-	2011	415,332
	-	-	2008	100	100	-	-
B W Fowler	-	100	2011	-	-	-	-
	-	-	2010	-	-	-	-
	-	-	2009	100	-	2011	296,220
	-	-	2008	100	100	-	-
G J Lockyer	-	100	2011	-	-	2012	8,407
	100	-	2010	-	-	-	-
	-	-	2009	100	-	2011	415,332
	-	-	2008	100	100	-	-
N Graham	-	100	2011	-	-	2012	46,117
J Ganser	-	100	2011	-	-	2012	64,202

Remuneration report (audited) - (cont)

Loans to directors and executives

There were no loans to directors and executives during the reporting period or at 30 June 2011.

Insurance of officers

During the financial year, the Group has paid an insurance premium in respect of a Directors' and Officers' Liability Insurance Contract. The insurance premium relates to liabilities that may arise from an officer's position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain personal advantage.

The officers covered by the insurance policies are directors and officers of the Group.

The contract of insurance prohibits the disclosure of the nature of the liabilities and the amount of premium.

This is the end of the audited remuneration report.

PROVISION OF AUDIT AND NON-AUDIT SERVICES
FOR THE YEAR ENDED 30 JUNE 2011

Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated	
	2011 **$**	2010 $
1. Audit services		
BDO Audit (WA) Pty Ltd		
Audit and review of financial reports	**65,514**	85,252
Total remuneration for audit services	**65,514**	85,252
2. Other services		
BDO Corporate Finance (WA) Pty Ltd		
Internal controls review	-	28,294
Total remuneration for other services	-	28,294
Total remuneration for non-audit services	-	28,294

The Board has considered the non-audit services provided during the year and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the audit committee to ensure they do not impact with the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110: *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate of the Group or jointly sharing risks and rewards.

AUDITOR'S INDEPENDENCE DECLARATION
FOR THE YEAR ENDED 30 JUNE 2011

Auditor's independence declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 55.

Signed in accordance with a resolution of the Directors.

S Ward
Managing Director & CEO

I J Laurance
Chairman

Perth, Western Australia
26 September 2011

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Subiaco, WA 6008
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Australia

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The Directors
Arafura Resources Limited
Level 5, 16 St Georges Terrace
Perth WA 6000

Dear Sirs

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

As lead auditor of Arafura Resources Limited for the year ended 30 June 2011, 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 audit.
- any applicable code of professional conduct in relation to the audit.

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

Peter Toll
Director

BDO Audit (WA) Pty Ltd

BDO

Perth, Western Australia
Dated 26 September 2011

Approach to Corporate Governance

Arafura Resources Limited (**Company**) has adopted systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this statement. Commensurate with the spirit of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations 2nd edition (**Principles & Recommendations**), the Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Company's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. In compliance with the "if not, why not" regime, where, after due consideration, the Company's corporate governance practices depart from a recommendation, the Board has offered full disclosure and an explanation for the adoption of its own practice.

Further information about the Company's corporate governance practices may be found on the Company's website at www.arafuraresources.com.au, under the section marked "Investor Information - Corporate Governance".

The Company reports below on how it has followed (or otherwise departed from) each of the Principles & Recommendations during the 2010/2011 financial year ("**Reporting Period**"). The Principles & Recommendations were amended in 2010, and these amendments apply to the Company's first financial year commencing on or after 1 January 2011. Accordingly, disclosure against the Principles & Recommendations as amended in 2010 will be made in relation to the Company's financial year ending 30 June 2012. The report below is made against the Principles & Recommendations prior to their amendment in 2010.

However, the Company has made a partial early transition to the amended Principles & Recommendations by adopting a Diversity Policy in accordance with the new Recommendation 3.2. A copy of the Company's Diversity Policy is available on the Company's website. The Board is currently developing measurable objectives for achieving gender diversity which it will disclose, together with its progress towards achieving them, in its 2012 annual report.

Board

Roles and responsibilities of the Board and Senior Executives (Recommendations: 1.1, 1.3)

The Company has established the functions reserved to the Board, and those delegated to senior executives and has set out these functions in its Board Charter.

The Board is collectively responsible for promoting the success of the Company through its key functions of overseeing the management of the Company, providing overall corporate governance of the Company, monitoring the financial performance of the Company, engaging appropriate management commensurate with the Company's structure and objectives, involvement in the development of corporate strategy and performance objectives, and reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct and legal compliance.

Corporate Governance Statement (cont)

Senior executives are responsible for supporting the Managing Director & Chief Executive Officer and assisting the Managing Director & Chief Executive Officer in implementing the running of the general operations and financial business of the Company, in accordance with the delegated authority of the Board. Senior executives are responsible for reporting all matters which fall within the Company's materiality thresholds at first instance to the Managing Director & Chief Executive Officer or, if the matter concerns the Managing Director & Chief Executive Officer, directly to the Chair or the lead independent director, as appropriate.

The Company's Board Charter is available on the Company's website.

Skills, experience, expertise and period of office of each Director (Recommendation: 2.6)

A profile of each Director setting out their skills, experience, expertise and period of office is set out in the Directors' Report.

Director independence (Recommendations: 2.1, 2.2, 2.3, 2.6)

The Board has a majority of directors who are independent.

The independent directors of the Company are Ian Laurance, Terry Jackson, Ian Kowalick, Irvin (Mick) Muir and Chris Tonkin (appointed 1 January 2011). These directors are independent as they are non-executive directors who are not members of management and who are free of any business or other relationship that could, or could reasonably be perceived to, materially interfere with the independent exercise of their judgment.

The Board considers the independence of directors having regard to the relationships listed in Box 2.1 of the Principles & Recommendations and the Company's materiality thresholds. The Board has agreed on, and set out in its Company's Board Charter the following guidelines for assessing the materiality of matters:

- Balance sheet items are material if they have a value of more than 10% of pro-forma net asset.

- Profit and loss items are material if they will have an impact on the current year operating result of 10% or more.

- Items are also material if they impact on the reputation of the Company, involve a breach of legislation, are outside the ordinary course of business, could affect the Company's rights to its assets, if accumulated would trigger the quantitative tests, involve a contingent liability that would have a probable effect of 10% or more on balance sheet or profit and loss items, or will have an effect on operations which is likely to result in an increase or decrease in net income or dividend distribution of more than 10%.

Corporate Governance Statement (cont)

- Contracts will be considered material if they are outside the ordinary course of business, contain exceptionally onerous provisions in the opinion of the Board, impact on income or distribution in excess of the quantitative tests, there is a likelihood that either party will default, and the default may trigger any of the quantitative or qualitative tests, are essential to the activities of the Company and cannot be replaced, or cannot be replaced without an increase in cost which triggers any of the quantitative tests, contain or trigger change of control provisions, are between or for the benefit of related parties, or otherwise trigger the quantitative tests.

The non-independent directors of the Company are Stephen (Steve) Ward, Shasha Lu and Alex Losada-Calderon.

The Company has implemented a Board "Refresh Program" (announced 27 July 2011) which is designed to continue to equip the Board with the necessary skills as the Company transitions rapidly through emerging company status to its operational phase. The Company is seeking three new independent non-executive directors with appropriate experience in legal matters (one), and the chemical and resources industry (two). Subject to a satisfactory period of transition with the new independent non-executive directors once appointed, it is the current intention of the existing non-executive directors (Mr Mick Muir (2011), and Messrs Ian Laurance (2012) and Terry Jackson (2012)) to retire by the end of their current term. Since the end of the financial year the company has appointed Mr Lloyd Jones and Ms Loretta Reynolds as independent non-executive directors. A summary of their skills expertise and period of office is as follows:

Mr Jones joined Alcoa Inc. in 1982 following a period with Wesfarmers CSBP Ltd. His career with Alcoa progressed through operational management of a mine and various chemical and mineral processing facilities to becoming President of the company's USA smelting operations with responsibility for global manufacturing coordination. His last role with Alcoa was based in Asia as President Alcoa Asia Pacific. Mr Jones then joined Cerberus Capital Management in 2007, a leading global private investment business, where he was President and Managing Director of Cerberus Asia Advisors, responsible for activities in Greater Asia and Australia.

Ms Reynolds is a corporate lawyer specialising in mergers and acquisitions. Ms Reynolds has wide-ranging experience in Australia, internationally and in the regulatory environment in South Australia and Northern Territory. Since 2007 Ms Reynolds has been Chairman of Partners at Australian law firm Thomsons Lawyers. Ms Reynolds also has Board experience in the areas of superannuation, arts and education. In 2011, she was awarded a Board Diversity Scholarship by the Federal Government and Australian Institute of Company Directors.

The independent Chair of the Board is Ian Laurance. On 27 July 2011, Ian Kowalick was appointed Deputy Chair, and he will assume the role of Chair of the Board at the 2011 annual general meeting. Ian Laurance will step down as Chair at the 2011 annual general meeting.

The Company's Managing Director & Chief Executive Officer is Steve Ward, who is not Chair of the Board.

Corporate Governance Statement (cont)

Independent professional advice
(Recommendation: 2.6)

To assist directors with independent judgement, it is the Board's policy that if a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a director then, provided the director first obtains approval from the Chair for incurring such expense, the Company will pay the reasonable expenses associated with obtaining such advice.

Selection and (Re)Appointment of Directors
(Recommendation: 2.6)

The Nomination and Remuneration Committee regularly reviews the composition of the Board and the succession plans for directors. It is intended that the Board be structured in such a way that it has a proper understanding of, and competence to deal with, the current and emerging issues of the business, and encourages enhanced performance. The Nomination and Remuneration Committee considers the current mix of skills and experience of existing directors, the business and strategic needs of the Company, the need to cater for replacement directors ahead of scheduled retirements, and the opportunities to obtain the services of particular persons with desirable skills at the time of their availability.

If additional non-executive directors are sought, a short list of candidates is selected by the Nomination and Remuneration Committee following internal and external consultation based on the skills required by the Board and the qualities of experience of the candidates. The Chair and members of the Nomination and Remuneration Committee interview the selected candidates and then a recommendation is made by the committee to the full Board for appointment. Final interviews with other Board members who are not members of the Nomination and Remuneration Committee may also be carried out.

The Board recognises that Board renewal is critical to performance and the impact of Board tenure on succession planning. Each director other than the Managing Director, must not hold office (without re-election) past the third annual general meeting of the Company following the director's appointment or three years following that director's last election or appointment (whichever is the longer). However, a director appointed to fill a casual vacancy or as an addition to the Board must not hold office (without re-election) past the next annual general meeting of the Company. At each annual general meeting at least two directors or a third of the total number of directors, must resign. A director who retires at an annual general meeting is eligible for re-election at that meeting and the re-appointment of directors is not automatic.

The Company's Policy and Procedure for the Selection and (Re)Appointment of Directors is available on the Company's website.

Corporate Governance Statement (cont)

Board committees

**Nomination and Remuneration Committee
(Recommendations: 2.4, 2.6, 8.1, 8.2 and 8.3)**

The Board has established a combined Nomination and Remuneration Committee. Prior to 1 January 2011, the Nomination and Remuneration Committee comprised Ian Laurance (Chair), Ian Kowalick and Steve Ward. On 1 January 2011, Mick Muir replaced Steve Ward on the Nomination and Remuneration Committee and Ian Kowalick took over as Chair.

The Nomination and Remuneration Committee held 8 meetings during the Reporting Period. Details of attendance at the Nomination and Remuneration Committee meetings are set out in the Directors' Report.

The Board has adopted Nomination and Remuneration Committee Charters which describe the role, composition, functions and responsibilities of the Nomination and Remuneration Committees. As noted above, the Board has combined these committees. The Company's Nomination Committee Charter and Remuneration Committee Charter are available on the Company's website.

Details of remuneration, including the Company's policy on remuneration, are contained in the "Remuneration Report" which forms of part of the Directors' Report. Non-executive directors are remunerated at market rates for time, commitment and responsibilities. Fees for non-executive directors are not linked to the performance of the Company and no bonuses are paid to non-executive directors. The Chair's fee is determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chair is not present at any discussion relating to the determination of his own remuneration. From time to time the Company may grant options to non-executive directors. The grant of options is designed to recognise and reward efforts as well as to provide non-executive directors with additional incentive to continue those efforts for the benefit of the Company. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at general meeting.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. The executive pay and reward framework has four components:

- base pay and benefits;
- short-term performance incentives;
- long-term incentives through participation in the Arafura Resources Ltd Employee Share Option Plan, or otherwise at the discretion of the Board and subject to obtaining the relevant approvals. The grant of options is designed to recognise and reward efforts as well as to provide additional incentive and may be subject to the successful completion of performance hurdles; and
- other remuneration.

Corporate Governance Statement (cont)

There are no termination or retirement benefits for non-executive directors (other than for superannuation).

The Company's Remuneration Committee Charter includes a statement of the Company's policy on prohibiting transactions in associated products which limit the risk of participating in unvested entitlements under any equity based remuneration schemes.

Audit Committee
(Recommendations: 4.1, 4.2, 4.3, 4.4)

The Board has established an Audit and Risk Committee.

The Audit and Risk Committee is structured in compliance with Recommendation 4.2 as it comprises only independent non-executive directors, is chaired by an independent Chair, who is not Chair of the Board, and has three members. Before the appointment of Chris Tonkin on 1 January 2011, the Audit and Risk Committee comprised Ian Kowalick (Chair), Mick Muir and Terry Jackson, all of whom are independent non-executive directors. On 1 January 2011, Chris Tonkin (independent, non-executive director) joined the Audit and Risk Committee, replacing Mick Muir.

The Board has adopted an Audit Committee Charter which describes the role, composition, functions and responsibilities of the Audit and Risk Committee.

The Audit and Risk Committee held 3 meetings during the Reporting Period. Details of directors' attendance at Audit and Risk Committee meetings are set out in the Directors' Report.

Each of the Audit and Risk Committee members consider themselves to be financially literate and to have experience in the industry in which the Company operates. Details of each of the director's qualifications are set out in the Directors' Report.

The Company has established procedures for the selection, appointment and rotation of its external auditor. The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises, as recommended by the Audit Committee and Risk Committee. Candidates for the position of external auditor must demonstrate complete independence from the Company through the engagement period. The Board may otherwise select an external auditor based on criteria relevant to the Company's business and circumstances. The performance of the external auditor is reviewed on an annual basis by the Audit Committee and Risk Committee and any recommendations are made to the Board.

The Company's Audit Committee Charter and the Company's Procedure for Selection, Appointment and Rotation of External Auditor are available on the Company's website.

Corporate Governance Statement (cont)

Performance evaluation

Senior executives
(Recommendations: 1.2, 1.3)

The Managing Director & Chief Executive Officer is responsible for evaluating the performance of senior executives on an annual basis. The Managing Director & Chief Executive Officer meets with each of the senior executives to review performance. The Managing Director & Chief Executive Officer obtains benchmarking surveys as part of the review, and submits a remuneration recommendation to the Nomination and Remuneration Committee for consideration.

During the Reporting Period, an evaluation of senior executives took place in accordance with the process disclosed above.

Board, its committees and individual directors
(Recommendations: 2.5, 2.6)

The Chair is responsible for evaluation of the Board and, when deemed appropriate, Board committees and individual directors. The Nomination and Remuneration Committee is responsible for evaluating the Managing Director & Chief Executive Officer.

As noted above, the Company has implemented a Board “Refresh Program”. The Refresh Program is designed to continue to equip the Board with the necessary skills as it transitions rapidly through emerging company status to operational phase. The Board undertook a review of its composition and structure and after undertaking an extensive search, the Board resolved to appoint Chris Tonkin on 1 January 2011 as a non-executive independent director. Further, Arafura is seeking three new non-executive directors with appropriate experience in legal matters and the chemical and resources industry.

During the Reporting Period an evaluation of the Board, its committees, and individual directors took place in accordance with the process disclosed above.

Ethical and responsible decision making

Code of Conduct
(Recommendations: 3.1, 3.3)

The Company has established a Code of Conduct as to the practices necessary to maintain confidence in the Company's integrity, the practices necessary to take into account its legal obligations and the reasonable expectations of its stakeholders, and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

A summary of the Company's Code of Conduct is available on the Company website.

Corporate Governance Statement (cont)

Policy for Trading in Company Securities
(Recommendations: 3.2, 3.3)

The Company has established a Policy for Trading in Company Securities by directors, officers, employees, contractors and consultants, and each of their connected persons' (which includes spouses and controlled entities).

A copy of the Company's Policy for Trading in Company Securities is available on the Company's website.

Continuous Disclosure
(Recommendations: 5.1, 5.2)

The Company has established written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and accountability at a senior executive level for that compliance.

Summaries of the Company's Policy on Continuous Disclosure and of the Company's Compliance Procedures are available on the Company's website

Shareholder Communication
(Recommendations: 6.1, 6.2)

The Company has designed a communications policy for promoting effective communication with shareholders and encouraging shareholder participation at general meetings.

A copy of the Company's Shareholder Communication Policy is available on the Company's website.

Risk Management
Recommendations: 7.1, 7.2, 7.3, 7.4)

The Board has adopted a Risk Management Policy, which sets out the Company's risk profile. Under the policy, the Board is responsible for approving the Company's policies on risk oversight and management and satisfying itself that management has developed and implemented a sound system of risk management and internal control.

Under the policy, the Board delegates day-to-day management of risk to the Managing Director & Chief Executive Officer**,** who is responsible for identifying, assessing, monitoring and managing risks. The Managing Director & Chief Executive Officer is also responsible for updating the Company's material business risks to reflect any material changes, with the approval of the Board.

In fulfilling the duties of risk management, the Managing Director & Chief Executive Officer may have unrestricted access to Company employees, contractors and records and may obtain independent expert advice on any matter they believe appropriate, with the prior approval of the Board.

Corporate Governance Statement (cont)

The Board has established a separate Audit and Risk Committee to monitor and review the integrity of financial reporting and the Company's internal financial control systems and risk management systems. The Audit and Risk Committee manages the risk table (referred to below).

The Company's management of its material business risks is based on a risk table prepared by management to identify the Company's material business risks and risk management strategies for the risks. Responsibility for the management of material business risks has also been allocated and management reports to the Board on material business risks on a monthly basis.

In addition, the following risk management measures have been adopted by the Board to manage the Company's material business risks:

- the Board has established authority limits for management, which, if proposed to be exceeded, requires prior Board approval;
- the Board has adopted a compliance procedure for the purpose of ensuring compliance with the Company's continuous disclosure obligations; and
- the Board has adopted a corporate governance manual which contains other policies to assist the Company to establish and maintain its governance practices.

The categories of risk reported on as part of the Company's systems and processes for managing material business risk include strategic, operational, financial, technical, community, occupational health and safety and marketing.

The Board have required management to design, implement and maintain risk management and internal control systems to manage the Company's material business risks. The Board also requires management to report to it confirming that those risks are being managed effectively. The Board has received a report from management as to the effectiveness of the Company's management of its material business risks during the Reporting Period.

The Managing Director & Chief Executive Officer and the Chief Financial Officer have provided a declaration to the Board in accordance with section 295A of the Corporations Act and have assured the Board that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

A summary of the Company's Risk Management Policy is available on the Company's website.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2011

		Consolidated		Parent entity	
		2011	2010	**2011**	2010
	Notes	**$**	$	**$**	$
Revenue from continuing operations	5	3,346,530	529,240	3,346,530	529,240
Other income	5	(5,930)	(11,249)	(5,930)	(11,249)
Employee benefits expense	6	(7,027,990)	(6,083,407)	(7,027,990)	(6,083,407)
Project feasibility and evaluation	6	(72,448)	(887,088)	(72,448)	(887,088)
Other expenses	6	(3,460,245)	(3,422,194)	(3,460,245)	(3,422,194)
Depreciation and amortisation	6	(230,366)	(252,669)	(230,366)	(252,669)
Finance costs	6	(5,556)	(5,510)	(5,556)	(5,510)
Impairment of assets	6	(5,991)	-	(5,991)	-
Loss before income tax		**(7,461,996)**	**(10,132,877)**	**(7,461,996)**	**(10,132,877)**
Income tax benefit	7	-	-	-	-
Net (Loss) for the year		**(7,461,996)**	**(10,132,877)**	**(7,461,996)**	**(10,132,877)**
Other comprehensive income/(loss)					
Changes in the fair value on assets	12	(95,368)	(23,842)	(95,368)	(23,842)
Other comprehensive income/(loss) for the year		**(95,368)**	**(23,842)**	**(95,368)**	**(23,842)**
Total comprehensive(loss) for the year		**(7,557,364)**	**(10,156,719)**	**(7,557,364)**	**(10,156,719)**
Total comprehensive (loss) for the year attributable to owners of Arafura Resources Limited		**(7,557,364)**	**(10,156,719)**	**(7,557,364)**	**(10,156,719)**

		Cents	**Cents**
Earnings per share for (loss) attributable to owners of Arafura Resources Limited			
Basic and diluted loss per share	26	(2.2)	(3.9)

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2011

		Consolidated		Parent entity	
		2011	2010	**2011**	2010
	Notes	**$**	$	**$**	$
CURRENT ASSETS					
Cash and cash equivalents	8	70,223,566	23,542,883	70,223,526	23,542,853
Trade and other receivables	9	1,851,072	162,089	1,851,072	162,089
Non-current assets held for sale	10	749,033	-	749,033	-
Total Current Assets		**72,823,671**	**23,704,972**	**72,823,631**	**23,704,942**
NON-CURRENT ASSETS					
Receivables	11	2,000,000	-	9,879,073	7,712,547
Available-for-sale financial assets	12	739,102	834,470	739,102	834,470
Other financial assets	13	-	-	40	30
Property, plant and equipment	14	498,920	476,982	458,561	476,982
Deferred exploration, evaluation and development costs	15	77,837,834	38,681,975	69,999,120	30,969,428
Total Non-Current Assets		**81,075,856**	**39,993,427**	**81,075,896**	**39,993,457**
TOTAL ASSETS		**153,899,527**	**63,698,399**	**153,899,527**	**63,698,399**
CURRENT LIABILITIES					
Borrowings	16	26,469	19,835	26,469	19,835
Trade and other payables	17	11,564,708	3,311,585	11,564,708	3,311,585
Total Current Liabilities		**11,591,177**	**3,331,420**	**11,591,177**	**3,331,420**
NON-CURRENT LIABILITIES					
Borrowings	16	25,291	18,574	25,291	18,574
Trade and other payables	17	34,977	-	34,977	-
Total Non-Current Liabilities		**60,268**	**18,574**	**60,268**	**18,574**
TOTAL LIABILITIES		**11,651,445**	**3,349,994**	**11,651,445**	**3,349,994**
NET ASSETS		**142,248,082**	**60,348,405**	**142,248,082**	**60,348,405**
EQUITY					
Contributed equity	18	176,163,635	88,662,312	176,163,635	88,662,312
Reserves	19	9,876,486	8,016,136	9,876,486	8,016,136
Accumulated losses	20	(43,792,039)	(36,330,043)	(43,792,039)	(36,330,043)
TOTAL EQUITY		**142,248,082**	**60,348,405**	**142,248,082**	**60,348,405**

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
AS AT 30 JUNE 2011

Consolidated & Parent	Notes	Contributed equity $	Equity reserve $	Revaluation reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2009	**18**	**55,764,899**	**5,155,267**	**131,729**	**(26,197,166)**	**34,854,729**
Total Comprehensive income for the year						
Loss for the year	20	-	-	-	(10,132,877)	(10,132,877)
		55,764,899	5,155,267	131,729	(36,330,043)	24,721,852
Transactions with owners in their capacity as owners						
Contributions of equity, net of transaction costs and tax	18	32,897,413	-	-	-	32,897,413
Employee share options – value of employee services	19	-	2,752,982	-	-	2,752,982
Fair value movement of available for sale financial assets	19	-	-	(23,842)	-	(23,842)
		32,897,413	2,752,982	(23,842)	-	35,626,553
Balance at 30 June 2010	**18,19,20**	**88,662,312**	**7,908,249**	**107,887**	**(36,330,043)**	**60,348,405**
Total Comprehensive income for the year						
Loss for the year	20	-	-	-	(7,461,996)	(7,461,996)
		88,662,312	7,908,249	107,887	(43,792,039)	52,886,409
Transactions with owners in their capacity as owners						
Contributions of equity, net of transaction costs and tax	18	87,501,323	-	-	-	87,501,323
Employee share options – value of employee services	19	-	1,955,718	-	-	1,955,718
Fair value movement of available for sale financial assets	19	-	-	(95,368)	-	(95,368)
Balance at 30 June 2011	**18,19,20**	**176,163,635**	**9,863,967**	**12,519**	**(43,792,039)**	**142,248,082**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2011

		Consolidated		Parent entity	
		2011	2010	**2011**	2010
	Notes	**$**	$	**$**	$
Cash flows from operating activities					
Payments to suppliers and employees		(8,772,594)	(7,188,270)	(8,772,594)	(7,188,270)
Interest received		2,252,093	529,240	2,252,093	529,240
Other revenue		327,492	151,794	327,492	151,794
Net cash (outflow) from operating activities	**21**	**(6,193,009)**	**(6,507,236)**	**(6,193,009)**	**(6,507,236)**
Cash flows from investing activities					
Payments for property, plant and equipment		(2,240,055)	(222,390)	(2,240,055)	(222,390)
Payments for patents and trademarks		-	(44,952)	-	(44,952)
Payments for exploration and development		(32,204,155)	(13,707,854)	(32,204,155)	(13,707,854)
Net cash (outflow) from investing activities		**(34,444,210)**	**(13,975,196)**	**(34,444,210)**	**(13,975,196)**
Cash flows from financing activities					
Proceeds from issue of shares	19	87,501,323	32,897,413	87,501,323	32,897,413
Payment for shares in subsidiary		-	-	(10)	-
Net cash inflow from financing activities		**87,501,323**	**32,897,413**	**87,501,313**	**32,897,413**
Net increase/(decrease) in cash and cash equivalents		**46,864,104**	**12,414,981**	**46,864,094**	**12,414,981**
Cash at the beginning of the financial year		23,542,883	11,113,639	23,542,853	11,113,609
Effects of exchange rate changes on cash and cash equivalents		(183,421)	14,263	(183,421)	14,263
Cash and cash equivalents at the end of the financial year	**8**	**70,223,566**	**23,542,883**	**70,223,526**	**23,542,853**

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

INDEX TO THE NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 1: Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Arafura Resources Limited and its subsidiaries. Arafura has used ASIC Class Order 10/654 and has presented parent company financial statements which can be found in the notes of this report.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Advisory Interpretations and the *Corporations Act 2001*.

Compliance with IFRS
The consolidated financial statements of the Arafura Resources Limited group and the separate financial statements of Arafura Resources Limited also comply with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Early adoption of standards
The Group has not adopted any pronouncements to the annual reporting period beginning 1 July 2010.

Historical cost convention
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements, are disclosed in note 3.

(b) Going concern

The Group incurred a loss for the year after tax of $7,461,996 (2010: $10,132,877) and a net cash out flow from operating activities of $6,193,009 (2010: $6,507,236).

At 30 June 2011, the Group had cash assets of $70,223,566 (2010: $23,542,883) and working capital of $61,232,495 (2010: $20,373,552).

Whilst the Group has sufficient cash and assets to meet its ongoing development and exploration commitments and administration expenditure through to the end of the current

Note 1: Summary of significant accounting policies (cont)

financial year, the directors recognise the need to raise additional funds to meet working capital requirements into the future. With the Company's previous ability to raise additional working capital, the directors consider it appropriate that the financial statements be prepared on a going concern basis.

(c) Principles of consolidation

(i) Subsidiaries
The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Arafura Resources Limited ('parent entity') as at 30 June 2011 and the results of all controlled entities for the year then ended. Arafura Resources Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights which are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

All inter-company balances and transactions between entities in the economic entity have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

(ii) Joint ventures
The proportionate interests in the assets, liabilities and expense of a joint venture activity have been incorporated in the financial statements under the appropriate headings. Details of the joint venture are set out in note 29.

(d) Income tax

The economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any non-assessable or disallowed items.

Deferred tax is accounted for by using the statement of financial position liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Note 1: Summary of significant accounting policies (cont)

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which any deductible temporary differences can be utilised.

The amount of benefit brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Arafura Resources Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the Tax Consolidation Regime. Arafura Resources Limited is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group. The entities in the tax consolidation group have not yet entered into a tax sharing agreement or a tax funding arrangement but may enter into these types of agreements in the future if it is considered beneficial to the group to do so.

(e) Cash and cash equivalents

For statement of cash flows presentation purposes, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(f) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 120 days from the date of recognition for land development and resale debtors, and no more than 30 days for other debtors.

Collection of trade receivables is reviewed on an ongoing basis. Debts, which are known to be uncollectible, are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount for the provision is recognised in the statement of comprehensive income.

(g) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Note 1: Summary of significant accounting policies (cont)

(h) Non current assets held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. Assets are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increase in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.
Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

(i) Investments and other financial assets

The Group classifies its investments in the following categories: financial assets at fair value through the profit or loss, loans and receivables, held-to-maturity investments and available -for-sale financial assets. The classification depends on the purpose for which the investments were acquired.

(i) Financial assets at fair value through profit and loss
A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Gains and losses arising from changes in the fair value of these assets are included in the statement of comprehensive income in the period in which they arise.

(ii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods, and/or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than twelve months after the reporting date which are classified as non-current assets.

Note 1: Summary of significant accounting policies (cont)

(iii) Held-to-maturity investments
These are non-derivative financial assets with fixed or determinable payments and fixed maturities that Group's management has a positive intention and ability to hold to maturity.

(iv) Available-for-sale financial assets
Available-for-sale financial assets comprising marketable equitable securities are non-derivatives that are either designated in this category or not classified in any other of the categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the statement of financial position date.

Purchases and sales of available-for–sale financial assets are recognised on trade date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through the profit or loss.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments are recognised in equity and are included in the statement of comprehensive income as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial assets previously recognised in the profit and loss, is removed from equity and recognised in the statement of comprehensive income.

(j) Property, plant and equipment

(i) Cost
All classes of property, plant and equipment are initially measured at historical cost less, where applicable, any accumulated depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Note 1: Summary of significant accounting policies (cont)

Subsequent costs are included in the asset's carrying amount or capitalised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

(ii) Depreciation
The depreciable amount of all fixed assets including capitalised lease assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use.

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. All fixed assets depreciated previously on a diminishing value method were changed to a straight line basis of depreciation from 1 October 2009.

Depreciation on assets is calculated over their estimated useful life as follows:

Class of fixed asset	Estimated useful life
Office furniture and fittings	10 years
Office and computer equipment	3 years
Plant and equipment	5 years
Motor vehicles	3 years
Leasehold improvements	10 years

The asset's residual value and useful life are reviewed, and adjusted if appropriate, at each statement of financial performance date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income.

When re-valued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(k) Exploration, evaluation and development costs

(i) Exploration
Exploration expenditure incurred is accumulated in respect of each identifiable area of interest. The expenditure comprises net direct costs and an appropriate portion of related overhead expenditure directly related to activities in the area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a

Note 1: Summary of significant accounting policies (cont)

stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated capitalised exploration expenditure in relation to an abandoned area of interest and/or an area where no mineable ore body is discovered are expensed in the period in which it is determined the area of interest has no future economic benefit.

(ii) Evaluation
Evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. The expenditure comprises net direct costs and an appropriate portion of related overhead expenditure directly related to activities in the area of interest.

These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

When the technical feasibility and commercial viability of extracting and processing mineral resources have been demonstrated, then any capitalised evaluation expenditure will be classified to mine development and mineral processing development expenditure. Prior to reclassification, capitalised evaluation expenditure is assessed for impairment.

Accumulated capitalised evaluation expenditure in relation to an abandoned area of interest and/or an area where no mineable ore body is discovered are expensed in the period in which it is determined the area of interest has no future economic benefit.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

(iii) Development
Development expenditure represents the costs incurred in preparing the mine site and mine for production. These costs are capitalised to the extent that they are expected to be recouped through successful exploitation of the related mining leases.

(l) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transactions costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Note 1: Summary of significant accounting policies (cont)

(m) Leased assets

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in current liabilities. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under the finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases are charged to the statement of comprehensive income on a straight line basis over the lease period.

(n) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial asset held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair value. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(o) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation. They are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Note 1: Summary of significant accounting policies (cont)

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(p) Employee benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to reporting date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later 12 months are not discounted if the effect of discounting is immaterial. The amount for the provision is recognised in the statement of financial position.

Share-based compensation benefits are provided to employees via the Arafura Resources Limited Employee Share Option Plan. Employee benefits received under this plan are accounted for as an option under *AASB2: Share-based Payments*. Information in relation to the scheme is set out in note 31.

The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date using the Binomial option pricing model.

Upon exercise of options, the balance of the share-based payments reserve in relation to those options is transferred to retained earnings.

The dilutive effect of outstanding vested options with an exercise price less than the market weighted average share price is reflected as additional share dilution on the computation of earnings per share.

(q) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(r) Revenue recognition

Revenue is recognised and measured at fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can easily be measured.

Note 1: Summary of significant accounting policies (cont)

Interest revenue is recognised as earned.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

(s) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(t) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, e.g. as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled.

No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(u) Segment reporting

Operating segments are reported in the manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Managing Director & CEO.

Note 1: Summary of significant accounting policies (cont)

(v) Foreign currency translation

The consolidated financial statements are presented in Australian dollars, which is Arafura Resources Limited's functional and presentational currency.

Foreign currency transactions are translated into the foreign currency using the exchange rates prevailing at the date of transaction.

(w) Earnings per share

(i) Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(x) Accounting Standards Issued Not Yet Effective

The following new/amended accounting standards and interpretations have been issued, but are not mandatory for financial years ended 30 June 2011. They have not been adopted in preparing the financial statements for the year ended 30 June 2011 and are expected to impact Arafura in the period of initial application. In all cases Arafura intends to apply these standards from application date as indicated below:

i) AASB 9 (issued December 2009 and amended December 2010) – Financial Instruments

Application date:
Periods beginning on or after 1 January 2013

Nature of change:
Amends the requirements for classification and measurement of financial assets.

The following requirements have generally been carried forward unchanged from AASB 139 Financial Instruments: Recognition and Measurement into AASB 9. These include the requirements relating to:

- Classification and measurement of financial liabilities; and
- Derecognition requirements for financial assets and liabilities.

Note 1: Summary of significant accounting policies (cont) – Accounting Standards Issued Not Yet Effective.

However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.

Impact on initial application:

Due to the recent release of these amendments and that adoption is only mandatory for the 31 December 2013 year end, the entity has not yet made an assessment of the impact of these amendments.

Arafura does not have any financial liabilities measured at fair value through profit or loss. There will therefore be no impact on the financial statements when these amendments to AASB 9 are first adopted.

ii) AASB 2010-4 (issued June 2010) - Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project

Application date:

Periods commencing on or after 1 January 2011.

Nature of change:

Not urgent but necessary changes to IFRSs as a result of IASB's 2009 annual improvements project.

Impact on initial application:

AASB 7 - There will be no impact on initial adoption of this amendment as a detailed reconciliation of each item of other comprehensive income has always been included in the statement of changes in equity.

AASB 101 - There will be no impact on initial adoption to amounts recognised in the financial statement as the amendments result in fewer disclosures only.

iii) AASB 2010-8 (issued December 2010) - Amendments to Australian Accounting Standards – AASB 112 Deferred Tax: Recovery of Underlying Assets

Application date:
Periods commencing on or after 1 January 2012.

Note 1: Summary of significant accounting policies (cont) – Accounting Standards Issued Not Yet Effective.

Nature of change:

For investment property measured using the fair value model, deferred tax assets and liabilities will be calculated on the basis of a rebuttable presumption that the carrying amount of the investment property will be recovered through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. However, this presumption cannot be rebutted for the land portion of investment property which is not depreciable.

Impact on initial application:

Arafura does not have any investment property measured using the fair value model. Therefore, upon adoption, there will be no impact on the financial statements.

iv) IFRS 10 (issued May 2011) - Consolidated Financial Statements

Application date:
Annual reporting periods commencing on or after 1 January 2013.

Nature of change:
Introduces a single ‘control model’ for all entities, including special purpose entities (SPEs), whereby all of the following conditions must be present:

- Power over investee (whether or not power used in practice)
- Exposure, or rights, to variable returns from investee
- Ability to use power over investee to affect the entity’s returns from investee.

Impact on initial application:

When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements because the entity does not have any special purpose entities.

v) IFRS 11 (issued May 2011) - Joint Arrangements

Application date:
Annual reporting periods commencing on or after 1 January 2013.

Nature of change:

Joint arrangements will be classified as either ‘joint operations’ (where parties with joint control have rights to assets and obligations for liabilities) or ‘joint ventures’ (where parties with joint control have rights to the net assets of the arrangement). Joint arrangements structured as a separate vehicle will generally be treated as joint ventures and accounted for using the equity method (proportionate consolidation no longer allowed).

Note 1: Summary of significant accounting policies (cont) – Accounting Standards Issued Not Yet Effective.

Impact on initial application:

When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements because Arafura has not entered into any joint arrangements.

vi) IFRS 13 (issued May 2011) - Fair Value Measurement

Application date:

Annual reporting periods commencing on or after 1 January 2013.

Nature of change:

Currently, fair value measurement requirements are included in several Accounting Standards. IFRS 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value in the statement of financial position or disclosed in the notes in the financial statements.

Impact on initial application:

Due to the recent release of this standard, Arafura has yet to conduct a detailed analysis of the differences between the current fair valuation methodologies used and those required by IFRS 13. However, when this standard is adopted for the first time for the year ended 30 June 2014, there will be no impact on the financial statements because the revised fair value measurement requirements apply prospectively from 1 July 2013.

vii) Amendments to IAS 1 (issued June 2011) - Presentation of Items of Other Comprehensive Income

Application date:

Annual periods commencing on or after 1 January 2013.

Nature of change:

Amendments to align the presentation of items of other comprehensive income (OCI) with US GAAP.

Various name changes as follows:

- 1 statement of comprehensive income – to be referred to as ‘statement of profit or loss and other comprehensive income’
- 2 statements – to be referred to as ‘statement of profit or loss’ and ‘statement of comprehensive income’.

Note 1: Summary of significant accounting policies (cont) – Accounting Standards Issued Not Yet Effective.

OCI items must be grouped together into two sections: those that could subsequently be reclassified into profit or loss and those that cannot.

Impact on initial application:

When this standard is first adopted for the year ended 30 June 2014, there will be no impact on amounts recognised for transactions and balances for 30 June 2014 (and comparatives). However, the statement of comprehensive income will include name changes and include subtotals for items of OCI that can subsequently be reclassified to profit or loss in future (e.g. foreign currency translation reserves) and those that cannot subsequently be reclassified (e.g. fixed asset revaluation surpluses).

viii) IAS 19 (issued June 2011) - Employee Benefits

Application date:
Annual periods commencing on or after 1 January 2013.

Nature of change:
Main changes include:

- Elimination of the 'corridor' approach for deferring gains/losses for defined benefit plans
- Actuarial gains/losses on remeasuring the defined benefit plan obligation/asset to be recognised in OCI rather than in profit or loss, and cannot be reclassified in subsequent periods
- Subtle amendments to timing for recognition of liabilities for termination benefits
- Employee benefits expected to be settled (as opposed to due to settled under current standard) within 12 months after the end of the reporting period are short-term benefits, and therefore not discounted when calculating leave liabilities. Annual leave not expected to be used within 12 months of end of reporting period will in future be discounted when calculating leave liability.

Impact on initial application:

The entity currently calculates its liability for annual leave employee benefits on the basis that it is due to be settled within 12 months of the end of the reporting period because employees are entitled to use this leave at any time. The amendments to IAS 19 require that such liabilities be calculated on the basis of when the leave is expected to be taken, i.e. expected settlement.

When this standard is first adopted for 30 June 2014 year end, annual leave liabilities will be recalculated on 1 July 2012. Leave liabilities for any employees with significant balances of leave outstanding who are not expected to take their leave within 12 months will be discounted, which may result in a reduction of the annual leave liabilities recognised on 1

Note 1: Summary of significant accounting policies (cont) – Accounting Standards Issued Not Yet Effective.

July 2012, and a corresponding increase in retained earnings at that date.

ix) AASB 2010-6 (issued November 2010) - Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets

Application date:

Annual reporting periods commencing on or after 1 July 2011.

Nature of change:

Additional disclosures required for entities that transfer financial assets, including information about the nature of financial assets involved and the risks associated with them.

Impact on initial application:

As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements.

x) AASB 1054 (issued May 2011) - Australian Additional Disclosures

Application date:
Annual reporting periods commencing on or after 1 July 2011.

Nature of change:

Moves additional Australian specific disclosure requirements for for-profit entities from various Australian Accounting Standards into this Standard as a result of the Trans-Tasman Convergence Project. Removes the requirement to disclose each class of capital commitment and expenditure commitment contracted for at the end of the reporting period (other than commitments for the supply of inventories).

Impact on initial application:

When this Standard is adopted for the first time for the year ended 30 June 2012, the financial statements will no longer include disclosures about capital and other expenditure commitments as these are no longer required by AASB 1054.

xi) AASB 2011-5 (issued July 2011) - Amendments to Australian Accounting Standards – Extending Relief from Consolidation, Equity Method and Proportionate Consolidation

Application date:
Annual reporting periods commencing on or after 1 July 2011.

Nature of change:

Extends relief from preparing consolidated financial statements to not-for-profit entities wanting to apply the consolidation exemption in paragraph 10 of AASB 127 (or exemption

Note 1: Summary of significant accounting policies (cont) – Accounting Standards Issued Not Yet Effective.

from equity accounting or proportionate consolidation under equivalent paragraphs in AASB 128 and AASB 131) where the ultimate parent entity is also a not-for-profit entity (and therefore not producing consolidated financial statements that comply with IFRS).

Impact on initial application:

When this standard is first adopted, there will be no impact on presentation because the group has always qualified for relief from preparing consolidated financial statements because its parent entity produces consolidated financial statements in accordance with IFRS.

xii) IFRS 12 (issued May 2011) - Disclosure of Interests in Other Entities

Application date:

Annual reporting periods commencing on or after 1 January 2013.

Nature of change:

Combines existing disclosures from IAS 27 *Consolidated and Separate Financial Statements*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*. Introduces new disclosure requirements for interests in associates and joint arrangements, as well as new requirements for unconsolidated structured entities.

Impact on initial application:

As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, additional disclosures will be required for interests in associates and joint arrangements, as well as for unconsolidated structured entities.

xiii) IFRS 13 (issued May 2011) - Fair Value Measurement

Application date:

Annual reporting periods commencing on or after 1 January 2013.

Nature of change:

Additional disclosures required for items measured at fair value in the statement of financial position, as well as items merely disclosed at fair value in the notes to the financial statements. Extensive additional disclosure requirements for items measured at fair value that are ‘level 3’ valuations in the fair value hierarchy that are not financial instruments, e.g. land and buildings, investment properties etc.

Impact on initial application:

When this standard is adopted for the first time on 1 July 2012, additional disclosures will be required about fair values.

Note 1: Summary of significant accounting policies (cont) – Accounting Standards Issued Not Yet Effective.

xiv) Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards* (effective from 1 January 2011)

Application date:

Annual reporting periods commencing on or after 1 January 2011.

Nature of change:

Simplifies disclosure requirements for government-related entities and clarifies the definition of a related party.

Impact on initial application:
As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, various disclosures currently required by government entities about related party transactions with other entities that are controlled, or significantly influenced by the same government entity will no longer be required if it is costly to gather and of less value to users.

Note 2: Financial risk management

The Group’s activities expose it to a variety of financial risks: market risk (which can include currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk. The Group’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

Note 2: Financial risk management (cont)

The Group and the parent entity hold the following financial instruments:

	Consolidated		Parent Entity	
	2011	2010	**2011**	2010
	$	$	**$**	$
Financial assets				
Cash and cash equivalents	**70,223,566**	23,542,883	**70,223,566**	23,542,853
Trade and other receivables	**3,851,072**	-	**11,730,145**	7,712,547
Available-for-sale financial assets	**739,102**	834,470	**739,102**	834,470
	74,813,740	**24,377,353**	**82,692,813**	**32,089,870**
Financial liabilities				
Trade creditors	**3,484,357**	1,497,257	**3,484,357**	1,497,257
Trade and other accruals	**7,332,262**	1,432,600	**7,332,262**	1,432,600
PAYG and payroll tax liabilities	**177,681**	-	**177,681**	-
Deferred income	**150,000**	-	**150,000**	-
Current & non-current borrowings	**51,760**	38,409	**51,760**	38,409
	11,196,060	**2,968,266**	**11,196,060**	**2,968,266**

(a) Market risk

(i) Foreign exchange risk

The Group and the parent entity are exposed to foreign exchange risk arising from contract exposure in relation to the provisions of goods and services by outside organisations. The exposure is predominantly in US dollars.

Foreign exchange risk arises from the future commercial transactions recognised as assets and liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

At the reporting date, the Group has no foreign exchange risk as the balance held by the parent in USD denomination bank account exceeds the amount of USD denominated trade payables. This provides the Group with the opportunity to naturally hedge transactions where best seen fit and will only expose the Group to unrealised foreign exchange risk. As a result, at the reporting date, the Group has no currency hedging in place in relation to foreign exchange risk exposure.

Note 2: Financial risk management (cont)

The Group's and parent entity's exposure to foreign currency risk at reporting date was as follows:

	Consolidated		Parent	
	2011 USD	2010 USD	**2011 USD**	2010 USD
Cash at bank	**731,873**	**1,085,366**	**731,873**	**1,085,366**
Trade Payables	**87,695**	**-**	**87,695**	**-**

(ii) Group sensitivity
Based on the financial instruments held at 30 June 2011, had the Australian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, there would be minimal effect on the Group's post tax loss. The unrealised gain/loss would result in a reduction of the reported Group post tax loss of $125,413 or an increased loss in reported Group post tax losses of $62,889.

The Group's exposure to other foreign exchange movements is not material.

(iii) Price risk
The Group and parent entity are exposed to equity securities price risk. This arises from investments held by the Group and classified on the statement of financial position as available-for-sale financial assets.

The following table summarises the impact of increases/decreases in the listed market prices from the listed closing price on 30 June 2011 and 30 June 2010 respectively in the equities held by the Group with all other variables held constant. The equities are all publicly traded on the ASX.

	Impact on post-tax profit		Impact on equity	
Listed, non-ASX 200	**2011 $**	2010 $	**2011 $**	2010 $
Increase				
10%	**-**	-	**73,910**	83,447
20%	**-**	-	**147,820**	166,894
50%	**-**	-	**369,551**	417,235
Decrease				
-10%	**-**	-	**(73,910)**	(83,447)
-20%	**-**	-	**(147,820)**	(166,894)
-50%	**-**	-	**(369,551)**	(417,235)

Note 2: Financial risk management (cont)

(iv) Cash flow and fair value interest rate risk
The Group has no significant long term borrowings and hence, is not exposed to any significant interest rate risk.

Group and parent sensitivity
At 30 June 2011, if interest rates had increased by 70 or decreased by 100 basis points from year-end rates with all other variables held constant, post-tax profit/(loss) for the year would have been $491,545 lower/($1,185,570 higher) (2010 – change of 70/100 bps: $99,984 lower/($90,895 higher)). This would be the result from higher/lower interest income from cash and cash equivalents.

(b) Credit risk

The Group has no significant concentrations of credit risk.

The credit quality of financial assets that are neither past due or impaired can be assessed by reference to external credit ratings:

	Consolidated		Parent Entity	
	2011	2010	**2011**	2010
	$	$	**$**	$
Cash at bank and short-term bank deposits				
Standard & Poor's rating AA	**70,223,566**	23,542,883	**70,223,526**	23,542,853

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities for the ability to fund future commitments. Due to the dynamic nature of the underlying businesses, the finance team aims at maintaining flexibility in funding to achieve this goal.

Financing arrangements
The Group and parent entity have no financing arrangements as at the reporting date.

Note 2: Financial risk management (cont)

Maturities of financial liabilities

The table below illustrates the Group's and parent entity's financial liabilities at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group & Parent at 30 June 2011	Less than 6 months $	6 – 12 months $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Total contractual cash flows $	Carrying amounts of (assets)/liabilities $
Non-derivatives							
Non-interest bearing	11,144,300	-	-	-	-	11,144,300	11,144,300
Fixed rate	22,351	4,119	9,260	16,030	-	51,760	(36,218)
Total non-derivatives	**11,166,651**	**4,119**	**9,260**	**16,030**	**-**	**11,196,060**	**11,108,082**

Group & Parent at 30 June 2010	Less than 6 months $	6 – 12 months $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Total contractual cash flows $	Carrying amounts of (assets)/liabilities $
Non-derivatives							
Non-interest bearing	2,929,857	-	-	-	-	2,929,857	2,929,857
Fixed rate	9,582	10,254	18,574	-	-	38,410	(25,253)
Total non-derivatives	**2,939,439**	**10,254**	**18,574**	**-**	**-**	**2,968,267**	**2,904,604**

Note 2: Financial risk management (cont)

(d) Fair value estimation

The fair value of financial assets and liabilities must be estimated for recognition and measurement or for disclosure purposes.

As of 1 July 2009, Arafura Resources Limited adopted the amendment to AASB7 *Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

(b) inputs other than quoted prices included within level 1 that are observable for the asset of liability, either directly (as prices) or indirectly (derived from prices) (level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following tables present the Group and parent entity's assets and liabilities measured and recognised at fair value at 30 June 2011.

Group & Parent at 30 June 2011	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Available-for-sale financial assets				
Equity securities	739,102	-	-	739,102
Total assets	**739,102**	**-**	**-**	**739,102**

Group & Parent at 30 June 2010	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Available-for-sale financial assets				
Equity securities	834,470	-	-	834,470
Total assets	**834,470**	**-**	**-**	**834,470**

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price.

Note 3: Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstance.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed in the following section.

(i) Continued recognition of mining, evaluation and development expenditure
Details of the Group's policy regarding the capitalisation of mining, evaluation and development expenditure are found in note 1(k).

(ii) Employee Share Option Plan
The requirements of AIFRS call for options issued to employees to be recorded at their fair value using an option pricing model. This requires various assumptions to be made in order to make the necessary calculations. For further details regarding the assumptions see note 31.

(b) Critical judgments in applying the entity's accounting policies

(i) Impairment of available-for-sale financial assets
The Group follows the guidance of *AASB139 Financial Instruments: Recognition and Measurement* in determining when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost.

If a decline in fair value below cost was considered significant or prolonged, the Group and the parent entity would transfer the accumulated fair value adjustments in equity on the impaired available-for-sale financial asset to the profit or loss. The board considered that the fair value of the available-for-sale financial asset to be below cost was significant and prolonged. As such, the previous amounts of fair value adjustments up to and including at 31 December 2008, were transferred to the profit or loss. Subsequent accumulated fair value adjustments have been recognised in equity.

Note 4: Segment information

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.

Transfer prices between operation segments are 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 year ended 30 June 2011 is as follows:

Note 4: Segment information (cont)

CONSOLIDATED	Project evaluation and development	Exploration	Other	Total
2011				
Segment revenue	-	-	3,524,022	3,524,022
Segment expenditure	(39,462,037)	(521,294)	(8,532,517)	(48,515,848)
Inter-segment expenditure	-	-	-	-
	(39,462,037)	(521,294)	(5,008,495)	(44,991,826)
Adjusted EBITDA	**(72,448)**[(1)]	**-**	**(5,008,495)**	**(5,080,943)**
Capitalised expenditure	(39,389,589)	(521,294)	-	(39,910,883)
	(39,462,037)	(521,294)	(5,008,495)	(44,991,826)
2010				
Segment revenue	-	-	517,991	517,991
Segment expenditure	(14,654,183)	(916,714)	(6,590,957)	(22,161,854)
Inter-segment expenditure	-	-	-	-
	(14,654,183)	(916,714)	(6,072,966)	(21,643,863)
Adjusted EBITDA	**(885,708)**[(1)]	**-**	**(6,072,966)**	**(6,958,674)**
Capitalised	(13,768,475)	(916,714)	-	(14,685,189)
	(14,654,183)	(916,714)	(6,072,966)	(21,643,863)
Total segment assets				
2011	67,696,574	12,181,617	74,021,335	153,899,527
2010	26,272,618	12,409,357	25,016,424	63,698,399
Total segment liabilities				
2011	10,171,455	39,832	1,440,158	11,651,445
2010	2,633,363	120,633	595,998	3,349,994

(1) Pilot plant

Reconciliation of adjusted EBITDA to operating loss before income tax:

	Consolidated 2011	Consolidated 2010
Adjusted EBITDA	**(5,080,943)**	**(6,958,674)**
Finance Costs	(5,556)	(5,510)
Depreciation & amortisation	(230,366)	(252,669)
Share option expense	(1,955,718)	(2,752,981)
Loss on disposal of assets	-	(177,306)
Impairment on assets	(5,991)	-
Realised exchange rate gain	15,754	14,263
Unrealised exchange rate loss	(199,176)	-
Loss before income tax	**(7,461,996)**	**(10,132,877)**

Note 5: Revenue

	Consolidated		Parent Entity	
	2011 **$**	2010 $	**2011** **$**	2010 $
Revenue from continuing operations				
Other revenue				
Interest received	**3,346,530**	529,240	**3,346,530**	529,240
Total revenue from continuing operations	**3,346,530**	529,240	**3,346,530**	529,240
Other Income				
Foreign exchange gain/(loss)	**(183,422)**	14,263	**(183,422)**	14,263
Profit/(loss) Property Plant & Equipment	**-**	(177,306)	**-**	(177,306)
Other	**177,492**	151,794	**177,492**	151,794
Total other income	**(5,930)**	(11,249)	**(5,930)**	(11,249)
Total revenue	**3,340,600**	517,991	**3,340,600**	517,991

Note 6: Expenses

	Consolidated		Parent Entity	
	2011	2010	**2011**	2010
	$	$	**$**	$
(a) Expenses				
Depreciation				
Depreciation – plant & equipment	**189,785**	200,187	**189,785**	200,187
Depreciation – motor vehicles	**22,993**	36,202	**22,993**	36,202
Depreciation – leasehold improvements	**17,588**	16,280	**17,588**	16,280
Total depreciation	**230,366**	252,669	**230,366**	252,669
Finance costs				
Interest expense	**5,556**	5,510	**5,556**	5,510
Total finance costs	**5,556**	5,510	**5,556**	5,510
Other expenses				
Accounting and other professional fees	**74,297**	119,202	**74,297**	119,202
Audit fees	**65,514**	113,546	**65,514**	113,546
Consultants fees	**794,882**	581,322	**794,882**	581,322
Employee benefits expense	**5,072,272**	3,330,425	**5,072,272**	3,330,425
Insurance	**88,060**	53,715	**88,060**	53,715
Legal fees	**158,336**	170,879	**158,336**	170,879
Promotion expenses	**30,756**	28,985	**30,756**	28,985
Share-based employee benefits	**1,955,718**	2,752,981	**1,955,718**	2,752,981
Share registry and stock listing fees	**205,518**	119,496	**205,518**	119,496
Other expenses	**2,042,882**	2,235,052	**2,042,882**	2,235,052
Total other expenses	**10,488,235**	9,505,603	**10,488,235**	9,505,603
Development expenses				
Pilot plant	**71,307**	887,088	**71,307**	887,088
Other projects	**1,141**	-	**1,141**	-
Total development expenses	**72,448**	887,088	**72,448**	887,088
Impairment of assets				
Capitalised exploration expenditure	5,991	-	5,991	-
Total impairment of assets	**5,991**	-	**5,991**	-

Note 7: Income tax

	Consolidated		Parent Entity	
	2011 $	2010 $	**2011 $**	2010 $
(a) Income tax expense				
Current tax	**-**	-	**-**	-
(b) Operating profit/(loss) before income tax expense	**(7,461,996)**	(10,132,877)	**(7,461,996)**	(10,132,877)
Tax at the Australian tax rate of 30%	**(2,238,599)**	(3,039,863)	**(2,238,599)**	(3,039,863)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
• Entertainment	**2,567**	6,017	**2,567**	6,017
• Share-based payments	**586,715**	825,894	**586,715**	825,894
• Sundry items	**-**	(20,231)	**-**	(20,231)
• Deferred tax assets relating to tax losses and temporary differences not recognised	**12,162,950**	6,648,740	**(10,475,777)**	6,571,752
Temporary differences not recognised	**(10,513,633)**	(4,420,557)	**12,125,094**	(4,343,569)
Income tax	**-**	-	**-**	-
Research & development rebate	**-**	-	**-**	-
Income tax benefit	**-**	-	**-**	-
(c) Deferred tax assets and liabilities not recognised relate to the following:				
Deferred tax assets				
Tax losses	**33,329,420**	20,620,587	**33,329,420**	20,620,587
Other temporary differences	**3,851,938**	1,114,263	**3,851,938**	1,114,263
Deferred tax liabilities				
Other temporary differences	**(23,586,046)**	(11,672,480)	**(21,234,432)**	(9,358,716)
Net deferred tax assets	**13,595,312**	10,062,370	**15,946,926**	12,376,134

The franking account balance at year end was $nil (2010: $nil). All unused tax losses were incurred by Australian entities.

Net deferred tax assets have not been brought to account as it is not probable within the immediate future that tax profits will be available against which deductible temporary differences and tax losses can be utilised.

Note 8: Current assets – Cash and cash equivalents

	Consolidated		Parent Entity	
	2011	2010	**2011**	2010
	$	$	**$**	$
Cash at bank and in hand	**14,148,566**	23,492,883	**14,148,526**	23,492,853
Bank deposits	**56,075,000**	50,000	**56,075,000**	50,000
	70,223,566	23,542,883	**70,223,526**	23,542,853

(a) The above figures are reconciled to cash at the end of the financial period as shown in the statements of cash flow as follows:

Reconciliation to cash at the end of the year

Balances as above	**70,223,566**	23,542,883	**70,223,526**	23,542,853
Balances as per statements of cash flows	**70,223,566**	23,542,883	**70,223,526**	23,542,853

(b) The Group's and parent entity's exposure to interest rate risk is discussed in note 2.

Note 9: Current assets – Trade and other receivables

	Consolidated		Parent Entity	
	2011	2010	**2011**	2010
	$	$	**$**	$
Trade debtors	**15,194**	-	**15,194**	-
Sundry debtors	**1,094,437**	-	**1,094,437**	-
Security bonds	**42,089**	162,089	**42,089**	162,089
Goods & services tax paid	**664,942**	-	**664,942**	-
Other receivables	**34,410**	-	**34,410**	-
	1,851,072	162,089	**1,851,072**	162,089

(a) Fair value and credit risk

The fair value of securities held for certain trade receivables is insignificant as it is the fair value of any collateral sold or re-pledged. Refer to note 2 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

Note 9: Current assets – Trade and other receivables (cont)

(b) Impaired receivables and receivables past due

None of the current receivables are impaired or past due but not impaired.

Note 10: Non-current assets held for sale

	Consolidated		Parent Entity	
	2011 $	2010 $	**2011 $**	2010 $
Assets held for sale				
Carrying amount of tenements(1)	**749,033**	-	**749,033**	-
Total assets held for sale	**749,033**	-	**749,033**	-

(1) 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 upon satisfaction of all commercial terms and conditions which are expected to be satisfied by approximately the 31st of December 2011.

Note 11: Non-current assets – Receivables and deposits

	Consolidated		Parent Entity	
	2011 $	2010 $	**2011 $**	2010 $
Loans to related parties				
Arafura Rare Earths Pty Ltd	**-**	-	**7,838,714**	7,712,547
Arafura Land Holdings Pty Ltd	**-**	-	**2,040,359**	-
	-	-	**9,879,073**	7,712,547
Other				
Prepayments (1)	**2,000,000**	-	-	-

(1) Initial deposit for capital asset acquired under an asset sale and purchase agreement other details of which are subject to an incomplete commercial arrangement.

(a) Impaired receivables and receivables past due

None of the non-current receivables are impaired or past due but not impaired.

Note 11: Non-current assets – Receivables (cont)

(b) Fair values

The fair values and carrying values of non-current receivables are as follows:

Parent Entity	2011 Carrying amount $	2011 Fair value $	2010 Carrying amount $	2010 Fair value $
Loans to related parties				
Arafura Rare Earths Pty Ltd	**7,838,714**	**7,838,714**	7,712,547	7,712,547
Arafura Land Holdings Pty Ltd	**2,040,359**	**2,040,359**	-	-
	9,879,073	**9,879,073**	7,712,547	7,712,547

Note 12: Non-current assets – Available-for-sale financial assets

	Consolidated 2011 $	Consolidated 2010 $	Parent Entity 2011 $	Parent Entity 2010 $
Listed securities[(a)]				
Opening balance	**834,470**	858,312	**834,470**	858,312
Additions	**-**	-	**-**	-
Disposals (sale & redemption)	**-**	-	**-**	-
Valuation movement to reserve	**(95,368)**	(23,842)	**(95,368)**	(23,842)
Closing balance	**739,102**	834,470	**739,102**	834,470

	Consolidated 2011 FPO	Consolidated 2010 FPO	Parent Entity 2011 FPO	Parent Entity 2010 FPO
Listed securities[(a)]				
Opening balance	**23,842,000**	23,842,000	**23,842,000**	23,842,000
On market purchase	**-**	-	**-**	-
On market disposal	**-**	-	**-**	-
Closing balance	**23,842,000**	23,842,000	**23,842,000**	23,842,000

Note 12: Non-current assets – Available-for-sale financial assets (cont)

(a) Listed securities

Shares held in listed securities are fully paid ordinary shares (FPO) with voting and dividend rights. Arafura owns 23,842,000 ordinary shares in NuPower Resources Limited at fair value on 30 June 2011 of $739,102 (30 June 2010: $834,470 – 23,842,000 shares). The fair value is deemed to be the closing price of the equities as quoted on the ASX on 30 June 2011.

Note 13: Non-current assets – Other financial assets

	Consolidated		Parent Entity	
	2011	2010	**2011**	2010
	$	$	**$**	$
Investments at cost				
Investment in subsidiaries	**-**	-	**40**	30
Total investments	**-**	-	**40**	30

Name	Country of incorporation	% of equity interest held by parent entity		Investment	
		2011	2010	**2011**	2010
		%	%	**$**	$
Arafura Iron Pty Ltd	Australia	**100**	100	**10**	10
Arafura Rare Earths Pty Ltd	Australia	**100**	100	**10**	10
Arafura Uranium Pty Ltd	Australia	**100**	100	**10**	10
Arafura Land Holdings Pty Ltd[(a)]	Australia	**100**	-	**10**	-
				40	30

(a) On the 2nd of September 2010 Arafura Land Holdings Pty Ltd was incorporated into the Group of Arafura Resources Ltd.

Note 14: Non-current assets – Property, plant and equipment

Consolidated	Office furniture and fittings $	Office and computer equipment $	Plant and equipment $	Motor vehicles $	Land, Buildings and leasehold additions $	Total $
At 1 July 2009						
Cost or fair value	101,715	554,386	65,426	201,727	246,181	1,169,435
Accumulated depreciation	(30,742)	(222,380)	(29,380)	(141,827)	(39,725)	(464,054)
Net book amount	70,973	332,006	36,046	59,900	206,456	705,381
Year ended 30 June 2010						
Opening book amount	70,973	332,006	36,046	59,900	206,456	705,381
Additions	11,572	76,216	3,284	-	162,747	253,819
Disposals	(28,536)	-	-	-	(201,013)	(229,549)
Transfers between classes	-	-	-	-	-	-
Depreciation charge	(6,506)	(180,522)	(13,159)	(36,202)	(16,280)	(252,669)
Depreciation charge capitalised	-	-	-	-	-	-
Closing book amount	47,503	227,700	26,171	23,698	151,910	476,982
At 30 June 2010						
Cost or fair value	69,673	602,820	68,710	167,793	175,886	1,084,882
Accumulated depreciation	(22,170)	(375,120)	(42,539)	(144,095)	(23,976)	(607,900)
Net book amount	47,503	227,700	26,171	23,698	151,910	476,982
Year ended 30 June 2011						
Opening book amount	47,503	227,700	26,171	23,698	151,910	476,982
Additions	16,029	158,642	1,759	35,515	40,359	252,304
Disposals	-	-	-	-	-	-
Transfers between classes	-	-	-	-	-	-
Depreciation charge	(7,312)	(170,549)	(11,924)	(22,993)	(17,588)	(230,366)
Depreciation charge capitalised	-	-	-	-	-	-
Closing book amount	56,220	215,793	16,006	36,220	174,681	498,920
At 30 June 2011						
Cost or fair value	85,702	761,462	70,469	203,308	216,245	1,337,186
Accumulated depreciation	(29,482)	(545,669)	(54,463)	(167,088)	(41,564)	(838,266)
Net book amount	56,220	215,793	16,006	36,220	174,681	498,920

Note 14: Non-current assets – Property, plant and equipment (cont)

Parent	Office furniture and fittings $	Office and computer equipment $	Plant and equipment $	Motor vehicles $	Land, Buildings and leasehold additions $	Total $
At 1 July 2009						
Cost or fair value	101,715	554,386	65,426	201,727	246,181	1,169,435
Accumulated depreciation	(30,742)	(222,380)	(29,380)	(141,827)	(39,725)	(464,054)
Net book amount	70,973	332,006	36,046	59,900	206,456	705,381
Year ended 30 June 2010						
Opening book amount	70,973	332,006	36,046	59,900	206,456	705,381
Additions	11,572	76,216	3,284	-	162,747	253,819
Disposals	(28,536)	-	-	-	(201,013)	(229,549)
Transfers between classes	-	-	-	-	-	-
Depreciation charge	(6,506)	(180,522)	(13,159)	(36,202)	(16,280)	(252,669)
Depreciation charge capitalised	-	-	-	-	-	-
Closing book amount	47,503	227,700	26,171	23,698	151,910	476,982
At 30 June 2010						
Cost or fair value	69,673	602,820	68,710	167,793	175,886	1,084,882
Accumulated depreciation	(22,170)	(375,120)	(42,539)	(144,095)	(23,976)	(607,900)
Net book amount	47,503	227,700	26,171	23,698	151,910	476,982
Year ended 30 June 2011						
Opening book amount	47,503	227,700	26,171	23,698	151,910	476,982
Additions	16,029	158,642	1,759	35,515	-	211,945
Disposals	-	-	-	-	-	-
Transfers between classes	-	-	-	-	-	-
Depreciation charge	(7,312)	(170,549)	(11,924)	(22,993)	(17,588)	(230,366)
Depreciation charge capitalised	-	-	-	-	-	-
Closing book amount	56,220	215,793	16,006	36,220	134,322	458,561
At 30 June 2011						
Cost or fair value	85,702	761,462	70,469	203,308	175,886	1,296,827
Accumulated depreciation	(29,482)	(545,669)	(54,463)	(167,088)	(41,564)	(838,266)
Net book amount	56,220	215,793	16,006	36,220	134,322	458,561

Note 15: Non-current assets – Deferred exploration, evaluation and development costs

	Consolidated		Parent Entity	
	2011 **$**	2010 $	**2011** **$**	2010 $
Exploration, evaluation and development costs carried forward				
Balance at beginning of year	**38,681,975**	23,996,786	**30,969,428**	16,540,866
Capitalised exploration expenditure	**521,294**	916,714	**395,127**	660,087
Capitalised evaluation expenditure [(a)]	**39,389,589**	13,768,475	**39,389,589**	13,768,475
Capitalised development expenditure	**-**	-	**-**	-
Impairment of exploration expenditure	**(5,991)**	-	**(5,991)**	-
Transfer to assets held for sale	**(749,033)**	-	**(749,033)**	-
Balance at end of year	**77,837,834**	38,681,975	**69,999,120**	30,969,428

(a) Capitalised evaluation expenditure is expenditure on the bankable feasibility study (BFS), demonstration plant and environmental impact assessment to evaluate, formulate and demonstrate the technical feasibility and commercial viability in developing a rare earths processing plant to process and treat the ore to be mined from the Nolans Project.

The ultimate recoverability of capitalised exploration, evaluation and development expenditure is dependent on the successful development of the area of interest and/or project or subsequent sale.

Note 16: Current & non-current liabilities – Borrowings

	Consolidated		Parent Entity	
	2011	2010	**2011**	2010
	$	$	**$**	$
Current interest bearing liability				
• Finance leases due within 1 year	**29,428**	21,801	**29,428**	21,801
Non-current interest bearing liability				
• Finance leases due later than 1 year but within 5 years	**27,090**	18,634	**27,090**	18,634
Minimum lease payments	**56,518**	40,435	**56,518**	40,435
Future finance charges recognised as a liability	**(4,758)**	(2,026)	**(4,758)**	(2,026)
Total lease liability	**51,760**	38,409	**51,760**	38,409
Representing interest bearing liabilities				
Current				
Interest bearing liabilities	**26,469**	19,835	**26,469**	19,835
Non-current				
Interest bearing liabilities	**25,291**	18,574	**25,291**	18,574
Total interest bearing liabilities	**51,760**	38,409	**51,760**	38,409

(a) Guarantees

The security for the above are motor vehicle assets under finance leases.

(b) Risk exposures

Details of the Group's exposure to risk arising from current and non-current borrowings are set out in note 2.

Note 17: Current & non-current liabilities – Trade and other payables

	Consolidated		Parent Entity	
	2011	2010	**2011**	2010
	$	$	**$**	$
Current				
Trade creditors [a]	**3,484,357**	1,497,257	**3,484,357**	1,497,257
Trade and other accruals	**7,332,262**	1,432,600	**7,332,262**	1,432,600
PAYG and payroll tax liabilities	**177,681**	-	**177,681**	-
Deferred income [b]	**150,000**	-	**150,000**	-
Provision for annual leave [c]	**420,408**	381,728	**420,408**	381,728
	11,564,708	3,311,585	**11,564,708**	3,311,585
Non-current				
Provision for long service leave	**34,977**	-	**34,977**	-
	34,977	**-**	**34,977**	**-**

Information about the Group's and parent entity's exposure to foreign exchange risk is provided in note 2.

(a) Trade creditors are non-interest bearing and are normally settled on 30 day terms.

(b) Deferred income relates to two non refundable payments totalling $150,000 received from Global Mineral Resources Ltd as part consideration received for the sale of the Mt Porter – Frances Creek gold assets. As all sale conditions at 30 June 2011 are still incomplete but likely to come to fruition, the capitalised costs relating to these tenements have been reclassified as Assets Held for Sale. Refer note 10 for further information.

(c) The current liability for employee benefits is for accrued annual leave. The entire amount of the benefit is presented as current, since the group does not have an unconditional right to defer settlement of these obligations. However based on past experience, the group does not expect all employees to take the full amount of accrued leave within the next 12 months. The following amount reflects leave that is not expected to be taken or paid within the next 12 months.

	Consolidated		Parent Entity	
	2011	2010	**2011**	2010
	$	$	**$**	$
Leave obligations expected to be settled after 12 months	**189,183**	171,778	**189,183**	171,778

Note 18: Equity – Contributed equity

	Consolidated and Parent Entity		Consolidated and Parent Entity	
	2011	2010	**2011**	2010
	Shares	Shares	**$**	$
(a) Share capital				
Ordinary shares				
• Fully paid	**367,980,342**	290,640,342	**176,163,635**	88,662,312

(a) Movements in ordinary share capital

Movements in ordinary share capital over the past two years are as follows:

Date	Details	Number of shares	Issue Price	$
30-Jun-09	**Balance**	**223,113,979**		**55,764,899**
23-Sep-09	Private placement	36,100,000	$0.40	14,440,000
25-Feb-10	Placement	28,225,806	$0.62	17,500,000
29-Mar-10	Renounceable rights issue	3,200,557	$0.62	1,984,345
01 Jul 09 – 30 Jun 10	Share issue transaction costs	-	-	(1,026,932)
30-Jun-10	**Balance**	**290,640,342**		**88,662,312**
19-Oct-10	Options exercised	110,000	$1.31	144,100
19-Oct-10	Options exercised	510,000	$1.19	606,900
21-Oct-11	Options exercised	40,000	$1.31	52,400
4-Nov-10	Placement - Tranche 1	43,695,000	$1.20	52,434,000
15-Dec-10	Placement - Tranche 2	31,305,000	$1.20	37,566,000
4-Jan-11	Options exercised	200,000	$1.19	238,000
4-Jan-11	Options exercised	100,000	$0.85	85,000
5-Jan-11	Options exercised	500,000	$0.85	425,000
5-Jan-11	Options exercised	500,000	$1.19	595,000
7-Jan-11	Options exercised	200,000	$0.85	170,000
11-Jan-11	Options exercised	55,000	$0.85	46,750
12-Jan-11	Options exercised	25,000	$0.85	21,250
25-Jan-11	Options exercised	50,000	$0.85	42,500
28-Apr-11	Options exercised	50,000	$0.85	42,500
01 Jul 10 – 30 Jun 11	Share issue transaction costs	-	-	(4,968,077)
30-Jun-11	**Balance**	**367,980,342**		**176,163,635**

Note 18: Equity – Contributed equity (cont)

(i) Placements to Sophisticated and Institutional Investors

On the 14th of November 2010, Arafura issued 43,695,000 fully paid ordinary shares at $1.20 to sophisticated and institutional investors as part of its overall aim to raise a total of $90,000,000. Pursuant to ASX Listing Rule 7.1 Arafura required ratification for a further 31,305,000 shares at $1.20 at the EGM held on the 9th of December 2010. Arafura received approval from its shareholders and issued the second tranche of shares to complete the proposed capital raising. Funds from the capital raising are being used to complete the bankable feasibility study and resource development at the Nolan's bore.

(ii) Capital risk management

The Group and parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amounts of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistently with others in the industry, the Group and parent entity monitor capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial performance plus net debt.

		Consolidated		Parent Entity	
		2011	2010	**2011**	2010
	Notes	**$**	$	**$**	$
Total payables	17	**11,564,708**	3,311,585	**11,564,708**	3,311,585
Borrowings	16	**51,760**	38,409	**51,760**	38,409
Less: cash and cash equivalents	8	**(70,223,566)**	(23,542,883)	**(70,223,526)**	(23,542,853)
Net debt		**(58,607,098)**	(20,192,889)	**(58,607,058)**	(20,192,859)
Total equity		**142,248,082**	60,348,405	**142,248,082**	60,348,405
Total capital		**83,640,984**	40,155,516	**83,641,024**	40,155,546
Gearing ratio		**(70%)**	(50%)	**(70%)**	(50%)

The increase in the above negative ratio in 2011 resulted primarily from an increase in total equity as a result of two placements also increasing cash and cash equivalents.

Note 19: Equity – Reserves

	Consolidated		Parent Entity	
	2011	2010	**2011**	2010
	$	$	**$**	$
Reserves				
Share-based payments reserve	**9,863,967**	7,908,249	**9,863,967**	7,908,249
Available-for-sale financial assets reserve	**12,519**	107,887	**12,519**	107,887
	9,876,486	8,016,136	**9,876,486**	8,016,136
Movements				
Share-based payments reserve				
Balance 1 July 2010	**7,908,249**	5,155,267	**7,908,249**	5,155,267
Option expense	**1,955,718**	2,752,982	**1,955,718**	2,752,982
Balance 30 June 2011	**9,863,967**	7,908,249	**9,863,967**	7,908,249
Available-for-sale financial assets reserve				
Balance 1 July 2010	**107,887**	131,729	**107,887**	131,729
Revaluations	**(95,368)**	(23,842)	**(95,368)**	(23,842)
Transfer to profit or loss	**-**	-	**-**	-
Balance 30 June 2011	**12,519**	107,887	**12,519**	107,887

(a) Nature and purpose of reserves

(i) Share-based payments reserve
The share-based payments reserve is used to recognise the fair value of options issued to employees and directors but not exercised.

(ii) Available-for-sale financial assets reserve
The available-for-sale financial assets reserve is used to recognise the movements in the fair value of the assets which are all listed securities at the reporting date.

Note 20: Equity – Accumulated losses

	Consolidated		Parent Entity	
	2011	2010	**2011**	2010
	$	$	**$**	$
Balance 1 July 2010	**(36,330,043)**	(26,197,166)	**(36,330,043)**	(26,197,166)
Net loss for the year	**(7,461,996)**	(10,132,877)	**(7,461,996)**	(10,132,877)
Balance 30 June 2011	**(43,792,039)**	(36,330,043)	**(43,792,039)**	(36,330,043)

Note 21: Statement of cash flows

Reconciliation of the net loss after income tax to the net cash (outflows) from operating activities.

	Consolidated		Parent Entity	
	2011	2010	**2011**	2010
	$	$	**$**	$
Net (loss)	**(7,461,996)**	(10,132,877)	**(7,461,996)**	(10,132,877)
Depreciation and amortisation	**230,366**	252,669	**230,366**	215,893
Impairment on capitalised exploration	**5,991**	-	**5,991**	-
Exploration salary re-charge	**(389,810)**	-	**(389,810)**	-
Deferred income	**150,000**	-	**150,000**	-
Loss/(gain) on disposal and/or sale of non-current assets	**-**	177,306	**-**	177,306
Unrealised FX loss	**-**	(14,263)	**-**	(14,263)
Share-based employee benefits	**1,955,718**	2,752,981	**1,955,718**	2,752,981
(Increase)/decrease in trade & other receivables	**(1,094,437)**	-	**(1,094,437)**	-
Increase/(decrease) in trade & other payables	**337,502**	227,004	**337,502**	227,004
Increase/(decrease) in other provisions	**73,657**	229,944	**73,657**	229,944
Net cash (outflow) from operating activities	**(6,193,009)**	(6,507,236)	**(6,193,009)**	(6,544,012)

Note 22: Key management personnel disclosures

(a) Directors

The following persons were directors of Arafura Resources Limited during the financial year:

(i) Chairman – non-executive
I J Laurance

(ii) Executive director
S Ward
S Lu (Nominee Director)

(iii) Non-executive directors
I J Kowalick
T R Jackson
I G Muir
A Losada-Calderon (Nominee Director)
C S Tonkin(1)

(1) Mr Chris Tonkin was appointed as a non-executive director on the 1 January 2011.

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

- R Brescianini – *General Manager Strategic Development and Exploration*
- B W Fowler* – *Manager Sustainability*
- G J Lockyer – *Chief Financial Officer and Company Secretary*
- J Ganser – *General Manager of Projects*
- N Graham* – *General Manager of Operations*
- S J Mackowski** – *General Manager of Technology*

*Upon the appointment of Neil Graham on the 1st of September 2010, Brian Fowler (Manager of Sustainability) was no longer considered a Key Management Person.

**As announced on the 1st of June 2011, Steven Mackowski will cease full-time employment with Arafura on the 1st of September 2011 due to his decision to retire. Steven will provide ongoing consulting services to the company on a part-time basis.

Note 22: Key management personnel disclosures (cont)

(c) Key management personnel compensation

	Consolidated		Parent Entity	
	2011	2010	**2011**	2010
	$	$	**$**	$
Short-term employee benefits	**3,469,433**	2,080,882	**3,469,433**	2,080,882
Post-employment benefits	**269,571**	226,819	**269,571**	226,819
Long-term benefits	**19,356**	-	**19,356**	-
Termination benefits	**-**	-	**-**	-
Share-based payments	**1,626,938**	2,069,325	**1,626,938**	2,069,325
	5,385,298	4,377,026	**5,385,298**	4,377,026

Detailed remuneration disclosures are provided in sections A-E of the remuneration report on pages 39 to 52.

(d) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the Remuneration report.

(ii) Option holdings

The number of options over ordinary shares in the Company held during the financial year by each director of Arafura Resources Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2011	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of year	Vested and exercisable	Unvested
Directors of Arafura Resources Limited							
I J Laurance	2,000,000	-	-	-	2,000,000	2,000,000	-
S Ward	1,500,000	-	-	-	1,500,000	1,500,000	-
I J Kowalick	1,500,000	-	-	-	1,500,000	1,500,000	-
T R Jackson	1,500,000	-	-	-	1,500,000	1,500,000	-
I G Muir	-	-	-	-	-	-	-
C Tonkin	-	-	-	-	-	-	-
S Lu	500,000	-	-	-	500,000	500,000	-
A Losada-Calderon	-	1,100,000	-	-	-	-	1,100,000
Key management personnel of the Group							
S J Mackowski	1,200,000	350,000	(1,000,000)	(200,000)	350,000	-	350,000
R Brescianini	1,200,000	350,000	(500,000)	(200,000)	850,000	500,000	350,000
B W Fowler	900,000	-	-	(200,000)	700,000	700,000	-
G J Lockyer	1,200,000	500,000	-	(200,000)	1,500,000	1,000,000	500,000
N Graham	-	750,000	-	-	750,000	-	750,000
J Ganser	-	750,000	-	-	750,000	-	750,000
Total	11,500,000	3,800,000	(1,500,000)	(800,000)	11,900,000	9,200,000	3,800,000

Note 22: Key management personnel disclosures (cont)

2010	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of year	Vested and exercisable	Unvested
Directors of Arafura Resources Limited							
I J Laurance	2,000,000	-	-	-	2,000,000	2,000,000	-
S Ward	1,500,000	-	-	-	1,500,000	1,500,000	-
I J Kowalick	1,500,000	-	-	-	1,500,000	1,500,000	-
T R Jackson	1,500,000	-	-	-	1,500,000	1,500,000	-
I G Muir	-	-	-	-	-	-	-
A J Stephens	2,500,000	-	-	(2,500,000)	-	-	-
S Lu	-	500,000	-	-	500,000	500,000	-
A Losada-Calderon	-	-	-	-	-	-	-
Key management personnel of the Group							
S J Mackowski	1,200,000	-	-	-	1,200,000	700,000	500,000
R Brescianini	1,700,000	-	-	(500,000)	1,200,000	700,000	500,000
B W Fowler	900,000	-	-	-	900,000	400,000	500,000
G J Lockyer	1,200,000	-	-	-	1,200,000	700,000	500,000
Total	14,000,000	500,000	-	(3,000,000)	11,500,000	9,500,000	2,000,000

All vested options are exercisable at the end of the year.

(iii) Share holdings

The number of shares in the Group held during the financial year by each director of Arafura Resources Limited and other key management personnel of the Group, including their personally related parties, are set out as follows:

2011	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year (on market trades)	Balance at the end of the year
Directors of Arafura Resources Limited				
I J Laurance	120,000	-	-	120,000
I J Kowalick	550,000	-	-	550,000
T R Jackson	5,256,535	-	-	5,256,535
S Ward	145,000	-	-	145,000
I G Muir	3,167,001	-	(170,000)	2,997,001
C Tonkin	-	-	-	-
S Lu	-	-	-	-
A Losada-Calderon	-	-	-	-
Key management personnel of the Group				
S J Mackowski	246,500	1,000,000	(1,246,500)	-
R Brescianini	51,330	500,000	(500,000)	51,330
B W Fowler	-	-	-	-
G J Lockyer	500,000	-	(200,000)	300,000
N Graham	-	-	13,159	13,159
J Ganser	-	-	-	-
Total	10,036,366	1.500.000	(2,103,341)	9,433,025

Note 22: Key management personnel disclosures (cont)

2010	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year (on market trades)	Balance at the end of the year
Directors of Arafura Resources Limited				
I J Laurance	100,000	-	20,000	120,000
I J Kowalick	550,000	-	-	550,000
T R Jackson	4,778,668	-	477,867	5,256,535
S Ward	100,000	-	45,000	145,000
I G Muir	3,167,001	-	-	3,167,001
A J Stephens	1,000,000	-	(1,000,000)	-
S Lu	-	-	-	-
A Losada-Calderon	-	-	-	-
Key management personnel of the Group				
S J Mackowski	246,500	-	-	246,500
R Brescianini	55,100	-	(3,770)	51,330
B W Fowler	-	-	-	-
G J Lockyer	500,000	-	-	500,000
Total	10,497,269	-	(460,903)	10,036,366

(iv) Loans to key management personnel
In the 2010 and 2011 financial year, there were no loans to individuals at any time.

(v) Other transactions with key management personnel
In the 2010 and 2011 financial year, there were no transactions with individuals at any time.

Note 23: Remuneration of auditors

During the year, the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms.

	Consolidated	
	2011	2010
	$	$
1. Audit services		
BDO Audit (WA) Pty Ltd		
Audit and review of financial reports	**65,514**	85,252
Total remuneration for audit services	**65,514**	85,252
2. Other services		
BDO Corporate Finance (WA) Pty Ltd		
Internal controls review	-	28,294
Total remuneration for other services	-	28,294
Total remuneration for non-audit services	-	28,294

Note 24: Commitments

(a) Mining tenement commitments

	Consolidated		Parent Entity	
	2011	2010	**2011**	2010
	$	$	**$**	$
Within one year	**6,648,938**	4,677,900	**6,648,938**	4,677,900
Later than one year but not later than five years	**22,813,825**	16,372,650	**22,813,825**	16,372,650
Later than five years	**-**	-	**-**	-
	29,462,763	21,050,550	**29,462,763**	21,050,550

In order to maintain current rights of tenure to exploration and mining tenements, the consolidated entity has the following discretionary exploration expenditure requirements up until expiry of the tenements. These obligations are not provided for in the financial statements.

Note 24: Commitments (cont)

If the consolidated entity decides to relinquish certain tenements and/or does not meet these obligations, assets recognised in the statement of financial performance may require review to determine the appropriateness of carrying values. The sale, transfer or farm-out of exploration rights to third parties will reduce or extinguish these obligations.

(b) Hire purchase commitments

	Consolidated		Parent Entity	
	2011 $	2010 $	**2011 $**	2010 $
Within one year	**29,428**	21,801	**29,428**	21,801
Later than one year but not later than five years	**27,090**	18,634	**27,090**	18,634
Later than five years	**-**	-	**-**	-
	56,518	40,435	**56,518**	40,435
Less: future finance charges	**(4,758)**	(2,026)	**(4,758)**	(2,026)
Recognised as liability	**51,760**	38,409	**51,760**	38,409
Represented by:				
Current (note15)	**26,469**	19,835	**26,469**	19,835
Non-current (note17)	**25,291**	18,574	**25,291**	18,574
	51,760	38,409	**51,760**	38,409

Hire purchase loans are entered into as a means of funding the acquisition of items of plant and equipment. Rental payments are fixed and have no escalation clauses. No hire purchase arrangements create restrictions on any other financing arrangement.

(c) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	Consolidated		Parent Entity	
Property Plant & Equipment	**2011 $**	2010 $	**2011 $**	2010 $
Within one year	**2,000,000**	-	**2,000,000**	-
Later than one year but not later than five years	**16,000,000**	-	**16,000,000**	-
Later than five years	**-**	-	**-**	-
	18,000,000	-	**18,000,000**	-

Note 24: Commitments (cont)

(d) Lease commitments:
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	Consolidated		Parent Entity	
	2011 $	2010 $	**2011 $**	2010 $
Within one year	**430,524**	408,599	**430,524**	408,599
Later than one year but not later than five years	**796,390**	1,164,432	**796,390**	1,164,432
Later than five years	**-**	-	**-**	-
	1,226,914	1,573,031	**1,226,914**	1,573,031

Note 25: 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 project.

Note 26: Earnings per share

	Consolidated	
	2011 Cents	2010 Cents
(a) Basic earnings per share		
Basic loss per share (cents per share)	**(2.2)**	(3.9)
(b) Diluted earnings per share		
Diluted loss per share (cents per share)	**(2.2)**	(3.9)

	Consolidated	
	2011 $	2010 $
Net Earnings/(loss)	**(7,461,996)**	(10,132,877)
Earnings/(loss) used to calculate basic earnings per share	**(7,461,996)**	(10,132,877)
Earnings/(loss) used to calculate diluted earnings per share	**(7,461,996)**	(10,132,877)

Note 26: Earnings per share (cont)

	Consolidated	
	2011 Number of shares	2010 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	**337,489,164**	261,245,809
Weighted average number of ordinary shares used in calculating diluted earnings per share	**337,489,164**	261,245,809
Weighted average number of ordinary shares from option conversions which are dilutive and potential ordinary shares that are not used in calculation of diluted earnings per share	**-**	-

The Company's potential ordinary shares, being its options granted, are not considered dilutive as the conversion to these options would results in a decrease in the net loss per share.

Note 27: Related party transactions

(a) Parent entities

The parent entity within the Group is Arafura Resources Limited. The ultimate Australian parent entity is Arafura Resources Limited which at 30 June 2011 owns 100% of the issued ordinary shares of Arafura Iron Pty Ltd, Arafura Rare Earths Pty Ltd, Arafura Uranium Pty Ltd and Arafura Land Holdings Pty Ltd. The ultimate parent entity and ultimate controlling party is Arafura Resources Limited which at 30 June 2011 owns 100% of the issued ordinary shares of Arafura Iron Pty Ltd, Arafura Rare Earths Pty Ltd, Arafura Uranium Pty Ltd and Arafura Land Holdings Pty Ltd.

There were no related party transactions for the year other than as disclosed in note 11.

(b) Subsidiaries

Interests in subsidiaries are set out in note 28.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 22.

(d) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated		Parent Entity	
	2011 $	2010 $	**2011 $**	2010 $
Payment of exploration expenditure by parent on behalf of Arafura Rare Earths Pty Ltd	**126,167**	256,627	**126,167**	256,627
Payment of land acquisition costs by parent on behalf of Arafura Land Holdings Pty Ltd	**2,040,359**	-	**2,040,359**	-
	2,166,526	256,627	**2,166,526**	256,627

Note 27: Related party transactions (cont)

(e) Outstanding balances arising from sale/purchases of goods and services

There were no outstanding balances at the end of the reporting period in relation to transactions with related parties.

(f) Loans to/from related parties

	Consolidated		Parent Entity	
	2011 $	2010 $	**2011 $**	2010 $
Loans to subsidiaries				
Beginning of the year	**-**	-	**7,712,547**	7,455,920
Transfer balance	**-**	-	**-**	-
Loans advanced	**-**	-	**2,166,526**	256,627
End of year	**-**	-	**9,879,073**	7,712,547

There is no allowance account for impaired receivables in relation to any outstanding balances, and no expense has been recognised in respect of impaired receivables due from related parties.

(g) Guarantees

The parent entity has provided no guarantees in respect of the loans provided to subsidiaries.

(h) Terms and conditions

All transactions were made at cost. Outstanding balances are unsecured and repayable in cash.

Note 28: Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policies described in note 1(c).

Name of entity	Country of incorporation	Class of share	Equity holding	
			2011 %	2010 %
Arafura Rare Earths Pty Ltd	Australia	Ordinary	**100**	100
Arafura Uranium Pty Ltd	Australia	Ordinary	**100**	100
Arafura Iron Pty Ltd	Australia	Ordinary	**100**	100
Arafura Land Holdings Pty Ltd [(a)]	Australia	Ordinary	**100**	-

(a) On the 2nd of September 2010 Arafura established Arafura Land Holdings Pty Ltd.

Note 29: Interest in joint ventures

At period end, Arafura has not entered into any Joint Venture relationships pertaining to any of its tenements.

A listing of Arafura's tenements held at 30 June 2011, including the rights held/relinquished can be found on the last page of the financial report.

Note 30: Events occurring after the statement of financial position date

(a) Issue of employee options – the following options have been issued to employees of Arafura Resources Limited under the ESOP after the 30 June 2011 year end:

Grant Date	Number of Options	Exercise Price	Vesting Date	Expiry Date
15/07/2011	1,400,000	$0.96	16/07/2012	16/04/2014

(b) Arafura announced on the 27th of July 2011 changes to its existing board structure via Arafura's 'Board Refresh Program'. The following changes are:

- Mr Ian Kowalick has been appointed Deputy Chairman as of the 27th of July 2011.
- Messrs Ian Laurance will step down as Chairman at the next AGM (to be replaced by Mr Ian Kowalick) however will remain as non-executive director.
- Ms Shasha Lu will transition to non-executive director after completing her executive director duties prior to the AGM in November 2011.
- Arafura intends to seek three new non-executive directors and once appointed, Mr Irvin (Mick) Muir, Mr Terry Jackson and Messrs Ian Laurance will retire upon completion of the current term.

Note 30: Events occurring after the statement of financial position date (cont)

(c) On the 18th of August 2011, Arafura announced it had signed its first Letter of Intent (“LOI) with ThyssenKrupp Metallurgical Products GmbH a daughter company of ThyssenKrupp, a major German integrated materials and technology company. Arafura will aim to develop a long-term commercial agreement for the sale of Rare Earth Oxide products in Germany and work together to pursue potential funding for the Nolan’s Rare Earths Project.

(d) On the 22nd of August 2011, Arafura released to the market that it confirmed the presence of substantial rare earth mineralisation at depth. A revised estimate for Nolan’s Bore is anticipated by the end of 2011.

The best mineralised intercepts include:

- 31.7 meters @ 2.3% REO, 10.4% P_2O_5 and 0.39 lb/t U_3O_8 from 161.9 metres in NBRD101
- 29.8 metres @ 3.5% REO, 15.4% P_2O_5 and 0.57 lb/t U_3O_8 from 126.1 metres in NBRD103
- 16.0 metres @ 4.4% REO, 21.4% P_2O_5 and 0.73 lb/t U_3O_8 from 233.4 metres in NBRD103
- 37.5 metres @ 3.7% REO, 17.0% P_2O_5 and 0.65 lb/t U_3O_8 from 154.0 metres in NBRD104
- 17.3 metres @ 4.5% REO, 22.1% P_2O_5 and 0.81 lb/t U_3O_8 from 218.1 metres in NBRD104

The above results coincide with the additional Rare Earth’s identified and released to the market on the 28th of July 2011.

(e) On the 30th of August Mr. Lloyd Jones was appointed as non-executive director of Arafura. Mr. Jones has been involved with the chemical industry for many years and more recently in private equity. He has a long and distinguished career in chemicals at very senior executive management levels. Mr. Jones has substantial international experience having worked internationally in Australia, USA, China and Japan, and with responsibility for extensive operations. During his period involved with private equity, he was based in Hong Kong. The wide-ranging nature of Mr. Jones’ career means that he has been able to build up a very broad range of business contacts.

(f) On the 16th of September 2011, Ms Loretta Reynolds was appointed as non-executive director of Arafura. Ms Reynolds is a corporate lawyer specialising in mergers and acquisitions. Ms Reynolds graduated from the University of Adelaide with a Bachelor of Economics (BEc) and Bachelor of Laws (LL.B). She also has a Graduate Diploma in Applied Finance and Investment. She is a Fellow of both the Australian Institute of Company Directors and the Financial Services Institute of Australasia.

(g) Subsequent to year end and including up to the date of this report, Arafura entered into two individual material commitments totalling $2.6 million to advance work on the expanded bankable feasibility study and resource definition program.

Note 30: Events occurring after the statement of financial position date (cont)

No other matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may significantly affect:

a) the group's operations in future financial years, or
b) the results of those operations in future financial years, or
c) the group's state of affairs in future financial years.

Note 31: Share-based payments

Employee option plan

The establishment of the Arafura Resources Limited Employee Share Option Plan (ESOP) was approved by shareholders at the 2007 annual general meeting. The options are issued for nil consideration, and are granted at the discretion of the Board. The options cannot be transferred, are not quoted on the Australian Stock Exchange (ASX) and carry no dividend or voting rights. The exercise price is based on the weighted average price at which the Company's shares are traded on the ASX during a specified period immediately before the options are granted. Unless otherwise indicated, options become exercisable one year after the grant date and generally expire within 3 to 5 years after the grant date. Once able to be exercised, options are exercisable at any time whilst the holder is employed by Arafura Resources Limited. When exercisable, each option is convertible into one ordinary share.

Options may also be issued outside of the ESOP. These options are offered at the directors' discretion to prospective employees as an incentive to commence employment with Arafura Resources Limited.

Set out below are summaries of options granted and still outstanding at the beginning and/or end of the financial year.

Grant date	Expiry date	Exercise price	Balance at start of year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of year Number	Vested and exercisable at end of year Number
Consolidated and parent entity – 2011								
1-Jul-08	31-Dec-12	$1.19	2,540,000	-	(1,210,000)	(20,000)	1,310,000	1,310,000
17-Jul-08	31-Dec-12	$1.19	100,000	-	-	-	100,000	100,000
2-Sep-08	31-Dec-12	$1.19	6,500,000	-	-	-	6,500,000	6,500,000
30-Jun-09	31-Dec-13	$0.85	4,425,000	-	(980,000)	(75,000)	3,370,000	3,370,000
21-Jul-10	20-Jul-13	$0.75	-	1,200,000	-	-	1,200,000	-
1-Sep-10	31-Aug-13	$0.98	-	750,000	-	-	750,000	-
13-Sep-10	14-Sep-13	$1.08	-	750,000	-	-	750,000	-
25-Nov-10	26-Nov-13	$1.54	-	1,100,000	-	-	1,100,000	-
Total			13,565,000	3,800,000	(2,190,000)	(95,000)	15,080,000	11,280,000
Weighted average exercise price			$1.25	$1.09	$1.04	$0.92	$1.09	$1.09

Note 31: Share-based payments (cont)

Grant date	Expiry date	Exercise price	Balance at start of year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of year Number	Vested and exercisable at end of year Number
Consolidated and parent entity – 2010								
16 Mar 07	30 Jun 10	$0.75	500,000	-	-	(500,000)	-	-
25 May 07	30 Jun 11	$1.72	820,000	-	-	-	820,000	820,000
03 Jul 07	30 Jun 11	$1.60	100,000	-	-	-	100,000	100,000
02 Oct 07	31 Jun 11	$1.31	150,000	-	-	-	150,000	150,000
17 Oct 07	30 Jun 11	$1.31	150,000	-	-	-	150,000	150,000
12 Nov 07	30 Jun 11	$1.70	200,000	-	-	-	200,000	200,000
01 Jul 08	31 Dec 12	$1.19	2,540,000	-	-	-	2,540,000	2,540,000
17 Jul 08	31 Dec 12	$1.19	100,000	-	-	-	100,000	100,000
02 Sep 08	31 Dec 12	$1.19	9,000,000	-	-	(2,500,000)	6,500,000	6,500,000
30 Jun 09	31 Dec 13	$0.85	4,475,000	-	-	(50,000)	4,425,000	-
Total			18,035,000	-	-	(3,050,000)	14,985,000	10,560,000
Weighted average exercise price			$1.13	-	-	$1.11	$1.13	$1.25

The weighted average remaining contractual life of the share options outstanding at the end of the period was 1.91 years (2010: 2.66 years).

Fair value of options granted

All options issued in the 2011 financial year were granted to Key Management Personnel. Refer to the remuneration report beginning page 39 to determine the fair value expense of options granted during the period ending 30 June 2011.

Arafura uses the “Binomial Model” to value its options. The model inputs for options granted during the year ended 30 June 2011 are:

(a) *Options are issued for no consideration and vest generally for key management personnel between one and three years after grant date and for employees one year after grant date.*

Exercise price	Grant date	Expiry date	Share price at grant date	Expected price volatility	Expected dividend yield	Risk free interest rate
$0.75	21-Jul-10	20-Jul-13	$0.61	102.70%	n/a	5.07%
$0.98	1-Sep-10	31-Aug-13	$0.74	103.20%	n/a	5.07%
$1.08	13-Sep-10	14-Sep-13	$0.99	93.00%	n/a	5.07%
$1.54	25-Nov-10	26-Nov-13	$1.30	91.20%	n/a	5.09%

Note 31: Share-based payments (cont)

(b) Employee share scheme

There was no employee share scheme during any of the reporting year or at the year end.

(c) Expenses arising from share-based payment transactions

The total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated		Parent Entity	
	2011 $	2010 $	**2011 $**	2010 $
Options issued under the executive & employee option plan	**1,955,718**	2,752,981	**1,955,718**	2,752,981
Total share based payments expense	**1,955,718**	2,752,981	**1,955,718**	2,752,981

DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2011

DECLARATION BY DIRECTORS

The directors of the Company declare that:

(1) The financial statements comprising the Statement of Comprehensive Income, Statement of Financial Performance, Statement of Cash Flows, Statement of Changes in Equity, accompanying notes are in accordance with the Corporations Act 2001, and:

  (a) comply with Accounting Standards, Corporations Regulations 2001; and

  (b) give a true and fair view of the financial position as at 30 June 2011 and of the performance for the year ended on that date for the Company and the consolidated entity.

(2) In the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

(3) In the directors' opinion, the financial statements and notes are prepared in compliance with IFRS and interpretations alerted by the International Accounting Standards Board.

(4) The remuneration disclosures set out on pages 39 to 52 of the Directors' report (as part of the audited Remuneration Report), for the year ended 30 June 2011 comply with section 300A of the Corporations Act 2001.

(5) The directors have been given the declarations by The Managing Director and Chief Financial Officer required by section 295A.

This declaration is made in accordance with a resolution of the Board of directors and is signed on behalf of the directors.

Ian Laurance

I J Laurance
Chairman
26 September 2011

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INDEPENDENT AUDITOR'S REPORT

To the members of Arafura Resources Limited

Report on the Financial Report

We have audited the accompanying financial report of Arafura Resources Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, 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.

Opinion

In our opinion:

(a) The financial report of Arafura Resources Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) The financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(a).

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001.* Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Arafura Resources Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001.*

BDO Audit (WA) Pty Ltd

BDO

Peter Toll
Director
Perth, Western Australia
Dated this 26th day of September 2011

Additional information included in accordance with the listing rules of the Australian Stock Exchange Limited.

1. Statement of issued capital at 24 August 2011:

(a) Distribution of fully paid ordinary shareholders

Size of holding	Number of shareholders	Number of shares
1 – 1000	1,295	744,589
1,001 – 5,000	2,801	8,521,657
5,001 – 10,000	1,593	13,179,193
10,001 – 100,000	2,069	61,330,737
100,001 – and over	188	284,204,166
	7,946	367,980,342

(b) There are no restrictions on voting rights attached to ordinary shares. On a show of hands, every member present in person shall have one vote and upon a poll, every member present or by proxy shall have one vote for every share held.

(c) As at 24 August 2011, there existed 826 shareholders who held less than a marketable parcel of shares.

2. Substantial shareholders at 24 August 2011 as per their notices:

Name	Ordinary shares %
JP Morgan Nom Aust Ltd	21.07%

3. Quotation

Fully paid ordinary shares are quoted on the Australian Stock Exchange Limited and the Frankfurt Exchange.

SHAREHOLDER INFORMATION

OF ARAFURA RESOURCES LTD

As at 24 August 2011, the twenty largest shareholders held 246,291,889 of the total fully paid ordinary shares in Arafura Resources Limited and they are:

No.	Name	Shares	% of issued
1	JP Morgan Nom Aust Ltd	99,376,479	27.01%
2	ECE Nolans Inv Co PL	64,433,333	17.51%
3	National Nom Ltd	18,308,499	4.98%
4	J P Morgan Nom Aust Ltd	16,901,851	4.59%
5	HSBC Custody Nom Aust Ltd	13,230,753	3.60%
6	Citicorp Nom PL	10,563,470	2.87%
7	Offa PL	5,256,535	1.43%
8	Equity Ttees Ltd	3,970,333	1.08%
9	Muir Irvin Graham	2,765,501	0.75%
10	UBS Wealth Mgnt Aust Nom	1,319,755	0.36%
11	HSBC Custody Nom Aust Ltd	1,286,579	0.35%
12	ABN Amro Clearing Sydney	1,195,868	0.32%
13	Merril Lynch Aust Nom PL	1,173,302	0.32%
14	Gu Jiesheng	1,144,000	0.31%
15	Holt Carl Eric + L	1,000,000	0.27%
16	CJN Bloodstock PL	1,000,000	0.27%
17	Moltoni Peter + Susan P	934,003	0.25%
18	R F Thompson QLD PL	870,360	0.24%
19	Simpson Raymond J + E A	800,000	0.22%
20	HSBC Custody Nom Aust Ltd	761,268	0.21%
		246,291,889	

The Group holds the following interests as indicated below:

Project	Title	Holder	Joint venture partners
Mt Porter	ERL 116, ML 23839	**Arafura Resources Ltd**	-
Frances Creek	AN 389[2], EL 10137[2], EL 22270[2], EL 23237[2]	**Territory Resources Ltd / Frances Creek Pty Ltd**	-
Kurinelli	AC 74, MCC 950-953	**Arafura Resources Ltd**	-
Aileron-Reynolds Range	EL 23571[4], SEL 23671[4], EL 28498, EL 28547, SEL 28473[1], EL 27335, EL 27336, EL 27337	**Arafura Resources Ltd**	-
Aileron Basins	EL 24548[5], EL 24741[3]	**NuPower Resources Ltd**	-
Nolans	ML 26659[1]	**Arafura Rare Earths Pty Ltd**	-
Hammer Hill	EL 9725[4], EL 10136[4]	**Arafura Resources Ltd**	-
Jervois	EL 10215[4], EL 26318, EL 26812	**Arafura Resources Ltd**	-
Pamela	EL 25754[1]	**Arafura Resources Ltd**	-

[1]Applications lodged with the Department of Regional Development, Primary Industry, Fisheries and Resources in the Northern Territory, Australia.

[2]Arafura Resources Ltd gold rights.

[3]Arafura Resources Ltd non-uranium rights.

[4]NuPower Resources Ltd uranium rights.

[5]Arafura Resources Ltd hold the non-uranium rights, Ngalia Resources Ltd have the right to earn in and acquire 60% of Arafura's iron ore rights.

All the above tenement holdings are in the Northern Territory, Australia.