AN EMERGING
RARE EARTHS
PRODUCER
FOR USERS
WORLDWIDE

Arafura Resources Limited

ABN 22 080 933 455

Annual Report

30 June 2012

Registered Office and Principal Place of Business

Level 5
16 St Georges Terrace
Perth
Western Australia
Australia
6000

CONTENTS

CORPORATE DIRECTORY

Directors	Ian Kowalick (Chairman) Chris Tonkin (Managing Director and Chief Executive Officer) Shasha Lu (Non Executive Director) Alex Losada-Calderon (Non Executive Director)
Secretary	Gavin Lockyer
Notice of annual general meeting	The annual general meeting of Arafura Resources Limited
Will be held at	Duxton Hotel, (Room: Duxton 3), 1 St George’s Tce, Perth, Western Australia
Time	10.00am (WST)
Date	30 November 2012
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
Auditor	BDO Audit (WA) Pty Ltd 38 Station Street Subiaco Western Australia 6008
Solicitors	Johnson Winter and Slattery Level 4, 167 St Georges Terrace Perth Western Australia 6000

CORPORATE DIRECTORY

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

Dear Shareholder,

It is with pleasure that I report to you on the past 12 months of activities at Arafura Resources. The Company has achieved a number of milestones at our flagship Nolan's Rare Earths Project amid significant changes and difficulties in global financial markets. We look forward to achieving further positive progress in the coming years.

The Board strongly believes that the Nolan's Project is a uniquely advanced development project and we are confident that our strategy will transform Arafura into one of the world's leading rare earths producers and deliver long-term value for our shareholders. The outlook for the global rare earths industry remains robust and our strategy of adding value within Australia's stable geopolitical environment positions the Company well in the global market.

Highlights of the Year

A major achievement of the year was the signing of initial strategic offtake agreements with two international companies. A Letter of Intent was signed with ThyssenKrupp Metallurgical Products for an exclusive, long-term commercial agreement for sale of Rare Earth Oxides (REOs) into Germany. ThyssenKrupp will also work with Arafura to pursue potential funding options for the Nolan's Project.

A strategic Memorandum of Understanding was also executed with a Korean multinational organisation on long-term rare earths business arrangements in Australia and Korea. This key strategic customer will also work together with Arafura on funding arrangements to bring the Nolan's Project to production.

These achievements are a result of ongoing marketing efforts and the Company's unique strategy of meeting with target customers to understand their future rare earths product and quality needs. The successful production of four separated REO products for customer assessment is a very significant accomplishment in this regard.

Arafura has successfully produced Cerium Oxide, Didymium (Nd/Pr) Oxide, HRE Oxide and SEG Oxide products on a pilot scale to a target specification of 99 per cent purity. Initial feedback from target customers has been very positive and the Company is now producing a separated Lanthanum Oxide product, which will be the last of the five separated REO products intended for initial commercialisation from the Nolan's Project.

A major resource upgrade at the Nolan's Bore deposit in the Northern Territory during the year further underscores the Company's view that Nolan's Bore is a world-class resource of strategic importance to Australia. This brings our total resource to 47 million tonnes at 2.6 per cent REO for 1,217,000 tonnes of contained rare earths.

The Nolan's Bore resource is low risk and has a long life based on the Project's planned rate of production, with potential for expansion at depth. Furthermore, it has one of the highest percentage compositions of Didymium Oxide of any rare earths resource currently being developed. Didymium Oxide is a highly valued REO product used in permanent magnet end markets and Arafura expects it will generate 50-60 per cent of the Company's future revenues from the Nolan's Project.

CHAIRMAN'S REPORT

Progress on Feasibility Study

During the year Arafura has been focused on progressing the Nolan's Project final feasibility study, with the aim of final investment decision in the latter part of 2013. From that point, Arafura will be targeting project financing to fund the development of the Nolan's Project.

The Company has made significant progress on the final feasibility study, which is currently at an advanced stage. The definitive Project Update that was announced in August 2012 highlights the extensive work completed and currently being undertaken as part of the study, which has significantly de-risked the process route. The Project Update also provides a project Base Case from which we can establish forecasts for project costs and economics.

The project economics for the Nolan's Project are compelling, with capital payback forecast to be achieved in the fourth year of operations with a net present value of A$4.3 billion (at a 10 per cent discount rate). In addition, an ongoing process improvement program has the potential to improve the already strong expected returns from the Base Case scenario.

As part of the feasibility study, no major issues have been identified by the Company's environmental studies at both the Whyalla and Nolan's Bore sites. Additionally, community relations have been very positive and we continue to invest time and effort into the respective local communities to foster community engagement and acceptance of our plans and strategies.

Arafura is well positioned with significant community and government support in both states and we will uphold all efforts to maintain strong relationships with all stakeholders in the Northern Territory and South Australia.

A Positive Outlook

Arafura is on track to become one of the world's largest rare earths producers and certainly one of the very few new rare earth supply sources this decade. While China continues to dominate global rare earths supply, alternative supply sources are increasingly important to the future of the global industry, especially as demand for rare earths is expected to remain robust.

The global market outlook continues to provide confidence to our Company's strategy. The expected rare earths supply shortfall within the next decade, particularly in neodymium (Nd), is likely to coincide with Arafura's production and commercialisation pathway, while growing demand for rare earths in the green technology sector is expected to drive the Company's sales.

The Company will look to finalise work on the Nolan's Project feasibility study over the next 12 months, and will also target project financing. Given the low resource risk and the advanced nature of feasibility, we are confident that we will be able to secure funding at acceptable commercial terms.

Furthermore, the additional capital injection from our major shareholder, ECE Nolan's Investment Company ("ECE"), demonstrates a strong vote of confidence in the Nolan's Project, and Arafura's Board and management. The valuable support from ECE will further assist us towards completion of the feasibility study next year.

Thank You

I would like to thank both the current Board of Directors and former directors who served the company in the financial year, the management team and staff for their dedication and efforts during the year.

CHAIRMAN'S REPORT

On behalf of the entire Company, I would also like to thank you – our shareholders – for your continued support and confidence in Arafura. I look forward to reporting to you with further positive progress on the Nolan's Project and your Company overall in the year ahead.

Yours sincerely,

Ian Kowalick
Chairman

Managing Director's Review

Over the past year, Arafura's key focus has been to progress the Nolan's Project feasibility study towards completion. Our Project Update, released in August 2012, outlined the current status of the feasibility study and positions Arafura at the forefront of a very small number of emerging rare earth production companies. We aim to finalise the feasibility study during 2013 and intend to commence preliminary discussions earlier in the year on funding options designed to facilitate development of the Nolan's Project.

Other major highlights of the year include establishing global alliances with two international companies, a significant upgrade of the Nolan's Bore rare earths resource, and delivery of final rare earth products to customers for their assessment.

Our advanced position is a key point of difference over other rare earth development projects and we have a clear way forward to development of the Nolan's Project that significantly de-risks our path to production and commercialisation.

The global market for rare earths continues to develop and grow, boding well for our ambitions to be a globally significant rare earths producer. The boom in consumer technology products, such as smart phones and tablets, plus the growing interest in green technology products, such as wind turbines and low-energy light bulbs, will drive the already increasing demand for rare earths over the next decade and beyond. Arafura is well placed to capitalise on this market opportunity with the Nolan's Project.

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

Nolan's Project Update

The definitive Project Update, released in August 2012, established a Base Case for the Nolan's Project, comprising a mine and concentrator at Nolan's Bore in the Northern Territory, and a chemical processing operation at Whyalla in South Australia, to produce 20,000 tonnes of rare earth oxides ("REOs") each year.

Extensive testwork across the Nolan's Project has provided the Company with detailed knowledge of all facets of the design chain; from demonstration of technology through to mine design and process flowsheet optimisation.

As a result, project risk and uncertainty have been reduced significantly while project economics remain very robust. The Base Case delivers a strong projected financial return from the Nolan's Project over a 20-year period, which matches its Measured and Indicated resource.

Under Arafura's Base Case assumptions, which we believe to be conservative, the Project's estimated Net Present Value ("NPV") of A$4.3 billion and its projected Internal Rate of Return ("IRR") of 30% reinforce the strong commercial appeal of the Nolan's Project. The projections are based upon a core capital cost for the Base Case of A$1,395 million and capital costs of Company-operated ancillary plants, that may ultimately be provided by third parties on a build-own-operate basis, of A$517 million. The increase in capital expenditure over earlier expectations is in line with comparable global development projects on a like-for-like basis.

The Company is also assessing a number of options for process improvements. Work on this program is scheduled for completion by the end of this year and the results may change the Base Case if they deliver a material benefit to project economics and satisfy the Company's criteria for inclusion.

Customers

Arafura has signed a Letter of Intent with German company ThyssenKrupp Metallurgical Products to develop an agreement for the sale of Arafura's rare earth products into Germany. The Company also executed a non-binding Memorandum of Understanding with a major Korean multinational organisation on business arrangements for rare earths in Australia and Korea.

In addition, both companies have indicated that they will work with Arafura to assist our funding arrangements for the Nolan's Project. Arafura is looking to finalise offtake agreements and its potential funding options ahead of arranging finance for the development of the Nolan's Project.

Arafura is continuing to promote its product marketing program in Japan, Europe and the US, with encouraging feedback to date.

Product Samples

Arafura is unique in producing and offering separated REO products to key customers for evaluation. During the year Arafura achieved significant milestones with regard to the production of separated REO samples.

Separated Cerium Oxide, Didymium Oxide, HRE Oxide and SEG Oxide were produced successfully at pilot scale for target customer evaluation. Customer qualification feedback has been positive and confirms that product quality is consistent with high purity design specifications.

Arafura is currently progressing the production of a separated Lanthanum Oxide product, which will be the last of its five separated REO products intended for initial commercialisation from the Nolan's Project.

Health and Safety Performance

Arafura's health and safety performance during the 2012 financial year reflects a total recordable injury frequency rate of 1.8 (OSHA standard), a single lost time injury during the latter stages of our 2011 Drilling Campaign and three first aid injuries. This performance is not atypical of the resources exploration sector and represents a substantial improvement over the previous year.

During the year, Arafura's health and safety culture and detailed reporting systems were further developed as the Company transitions from explorer to developer, and the Company has implemented systems that should be sufficiently robust to cover our future activities.

Environment and Community

Environmental Impact Statements for each of Nolan's Bore and the Rare Earths Complex at Whyalla have progressed well during the year, with study survey work being carried out on areas such as flora, fauna, radiation, hydrology, marine and social impact. These studies define and characterise the baseline data for the proposed sites and were approximately 80% complete by financial year end. All results to date have been as expected and the studies have not discovered any significant environmental or community related issues that could have an adverse impact upon the Project or the communities surrounding it.

Arafura is committed to open and transparent engagement and consultation with the communities in the Northern Territory and South Australia and we have often been cited as a leading example of a proponent committed to appropriate and inclusive consultation. In this respect, the Company has a high degree of accessibility and visibility with continued local presence, open office opportunities, public events and more structured engagement with interested stakeholder groups.

Nolan's Bore Mineral Resource

Arafura continued to develop its wholly owned, low-risk, large scale resource at Nolan's Bore during the year. The JORC-compliant Mineral Resource at Nolan's Bore was significantly upgraded to 47 million tonnes grading 2.6% REO, for 1.2 million tonnes of contained REO.

Furthermore, the high neodymium content of Nolan's Bore makes it one of the highest neodymium contents of any rare earths resource currently being developed. This is particularly important, as neodymium is a highly valued and in-demand rare earth that makes up most of the Company's Didymium Oxide product. Didymium Oxide is expected to comprise approximately 60% of Arafura's future sales revenues from the Nolan's Project.

The discovery of new rare earths mineralisation in drilling near Nolan's Bore emphasises the prospectivity and long-term value of Arafura's strategic land position. There is further upside potential at Nolan's Bore itself, as rare earths mineralisation remains open at depth across the deposit.

Whyalla Processing Plant

During the year, a land purchase agreement for a brownfields site in Whyalla for the chemical processing plant was put in place. This enabled the Project to earn "Major Project" status from the South Australian Government. The site is close to infrastructure, has availability of services and access to a skilled workforce.

Arafura is one of a very small number of rare earth companies to have identified, let alone secured, such a site for large scale, long term, complex downstream processing.

Funding

As mentioned earlier, Arafura intends early in 2013 to commence preliminary discussions on funding options for development of the Nolan Project. The Company will assess options with target customers, including ThyssenKrupp and the Korean multinational organisation, and with potential providers of both equity and debt for the Project. In addition, Arafura will actively seek strategic alliances and/or joint venture involvement from interested parties that can add value to the Nolan's Project. The Company will escalate its fund raising activities throughout 2013 and, pending a positive investment decision from the Board around the middle of 2013, is targeting an agreed funding arrangement for the Project by the end of that year.

MANAGING DIRECTOR'S REVIEW

Summary

Arafura has had a year of progress despite the difficult market environment and is moving forward with confidence in the quality and the future of the Nolan's Project. I would like to acknowledge the Executive Management Team for its untiring efforts throughout the year, and the entire staff of Arafura for their contributions to the Company, which are greatly appreciated.

I look forward to working together over the next 12 months with further positive and exciting developments as we focus on finalising the remaining commercial and technical activities involved in finalising the feasibility study and moving into a project implementation phase. I am confident that Arafura can add significant value at the Nolan's Project to deliver long-term shareholder value.

Yours sincerely,

Chris Tonkin
Managing Director and Chief Executive Officer

OPERATIONS OVERVIEW

Operations Overview

The Nolan's Project is Arafura's flagship project that will produce 20,000 tonnes of rare earth oxide ("REO") products each year once fully established, positioning the Company as a leading global rare earths producer. The Nolan's Project will also produce phosphate, uranium and gypsum co-products, while Arafura also owns gold, iron-vanadium and base metal exploration interests in the Northern Territory.

The Project Base Case comprises a mine and concentrator at Nolan's Bore in the Northern Territory and a chemical processing operation at Whyalla in South Australia. Arafura has secured tenure over the Nolan's Bore site and has entered into a land purchase agreement to secure the Whyalla site.

Arafura has defined a substantial JORC-compliant and low risk mineral resource at Nolan's Bore, which is capable of sustaining the Nolan's Project for at least 30 years of operation. In addition, the Company has undertaken extensive test work on the process route, from resource through to final REO products, to further de-risk the Project.

Arafura has an ongoing program to examine the potential for certain process improvements. This program could improve an already strong expected return from the Project.

Nolan's Bore (Northern Territory)

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

Nolan's Bore is one of the world's largest rare earths deposits and contains large quantities of:

- Rare earths (lanthanum La, cerium Ce, praseodymium Pr, neodymium Nd, samarium Sm, europium Eu, gadolinium Gd, terbium Tb, dysprosium Dy and yttrium Y);
- Phosphate;
- Uranium; and
- Other less valuable minerals, including thorium.

The development at Nolan's Bore will comprise a mine and concentrator with ancillary support utilities, inbound and outbound materials handling facilities, tailings, overburden and residue storage, in addition to accommodation and other general facilities.

There is low resource risk at Nolan's Bore, as almost 90,000 metres of drilling has been completed at an average spacing of 40 metres.

Nolan's Bore Mineral Resource

The Nolan's Bore site has been comprehensively explored since 2000. Over this period, it has undergone an intensive drilling program that has defined a very large rare earths resource at surface down to 215 metres. There is upside potential in the Nolan's Bore mineral resource, as the full depth extent of the deposit is yet to be determined.

OPERATIONS OVERVIEW

The JORC-compliant Mineral Resource estimate for Nolan's Bore was upgraded during the year. Independently AMC Consultants has estimated the current Nolan's Bore Mineral Resource to be 47 million tonnes grading 2.6% REO, for 1.2 million tonnes of contained REO. Fifty four percent of these resources are classified as Measured and Indicated and these resources have been earmarked for conversion to Ore Reserves.

Table 1.1: Nolan's Bore Mineral Resources (as at 8 June 2012)

Resources[1]	Tonnes (Million)	Rare Earths[2] REO %	Tonnes REO	Phosphate P_2O_5 %	Tonnes P_2O_5	Uranium U_3O_8 lb/t	Tonnes U_3O_8
Measured	4.3	3.3	144,000	13	572,000	0.57	1,120
Indicated	21	2.6	563,000	12	2,610,000	0.42	4,090
Inferred	22	2.4	511,000	10	2,220,000	0.37	3,610
Total[3]	**47**	**2.6**	**1,217,000**	**11**	**5,410,000**	**0.41**	**8,830**

[1]1% REO cut-off grade

[2]REO grade excludes yttrium

[3]Numbers may not compute exactly due to rounding.

Nolan's Bore is highly enriched in neodymium, which is one of the most sought after and valuable rare earths. The neodymium content of 20.58% of total REO composition at Nolan's Bore makes it one of the highest of any rare earths resource currently being developed.

Table 1.2: Nolan's Bore Average REO Composition

Rare Earth Oxide	Average in-situ composition
Lanthanum as La_2O_3	19.13%
Cerium as CeO_2	48.72%
Praseodymium as Pr_6O_{11}	5.93%
Neodymium as Nd_2O_3	20.58%
Samarium as Sm_2O_3	2.30%
Europium as Eu_2O_3	0.39%
Gadolinium as Gd_2O_3	0.99%
Terbium as Tb_4O_7	0.08%
Dysprosium as Dy_2O_3	0.32%
Holmium as Ho_2O_3	0.04%
Erbium as Er_2O_3	0.09%
Thulium as Tm_2O_3	0.01%
Ytterbium as Yb_2O_3	0.06%
Lutetium as Lu_2O_3	0.01%
Yttrium as Y_2O_3	1.35%
Total	**100.00%**

Furthermore, new rare earths mineralisation was discovered near Nolan's Bore during the year as a result of shallow, first-pass reverse circulation (RC) drilling of geophysical targets. This limited campaign of drilling was designed to test rare earth exploration targets generated from airborne surveys from field work in 2008.

The best mineralised intercepts include:

- 28 metres @ 2.6% REO, 2.6% P2O5 and 0.36 lb/t U3O8 from 92 metres in NBRC1050; and
- 23 metres @ 1.8% REO, 2.7% P2O5 and 0.19 lb/t U3O8 from 39 metres in NBRC1049

The Nolan's Bore resource is amenable to low-cost open cut mining and standard beneficiation techniques, and will be mined using selective open cut methods. Open cut mining will be carried out using conventional blast, shovel and truck techniques to supply material to the Run of Mine (ROM) pad for feeding into an on-site concentrator comprising a comminution circuit and beneficiation circuits.

Interim pit optimisation studies show that more than 20 years of production is possible based on Measured and Indicated Resources alone. Nolan's Bore has an indicative mine life of more than 30 years, assuming that the entire resource as currently defined can be processed.

The life of mine schedule is based on a maximum overall annual mining rate of seven million tonnes for the first eight years of operation, increasing to 15 million tonnes per annum thereafter, to produce an average of 1.2 million tonnes of ROM material each year.

Whyalla Rare Earths Complex (South Australia)

Following the September 2010 announcement that Arafura's Rare Earths Processing Complex would be located at Whyalla, South Australia, the Company secured an 800 hectare brownfields site in June 2011.

The site was selected because of its proximity to key infrastructure, such as road, rail and port facilities; seawater for desalination; and access to a skilled workforce, together with the support of the South Australian Government and local community for the project. The Company is continuing to progress work relating to approval of the Environmental Impact Statement (EIS).

The Whyalla Rare Earths Complex will comprise Rare Earth Processing (Pre Leach – Rare Earths Recovery – Hydrochloric Acid Regeneration – Sulphation and Purification), Rare Earth Separation and ancillary plants (sulphuric acid, hydrochloric acid, and utilities), co-products and residue storage, inbound and outbound materials handling and other general facilities.

Mineral concentrate, rich in rare earths and phosphate minerals, will arrive at the Whyalla Complex by rail from the Nolan's 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 each for rare earths and 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.

The Whyalla Rare Earths Complex was declared a Major Project by the South Australian Government in September 2010.

OPERATIONS OVERVIEW

Project Flowsheet

The Nolan's Project process flowsheet has been developed over seven years. It is based on an extensive laboratory, pilot plant and demonstration plant testwork program undertaken by Arafura and its technology partners, augmented by detailed process modelling from mine to final products.

Validation of the process flowsheet, from beneficiation through to final REO product separation, is well advanced. Arafura has also worked closely with a number of first tier engineering organisations to provide capital and operating cost estimates for financial evaluation.

In the Base Case, ROM material will be fed to a conventional crushing circuit and upgraded using a combination of dense media separation (DMS), wet high-intensity magnetic separation (WHIMS), and flotation. Rare earths recovery in beneficiation is expected to exceed 80%.

Mineral concentrate will be hauled from the Nolan's Bore concentrator to the Darwin-Adelaide rail line for transport to Whyalla for chemical processing. A mineral concentrate grade of 5% REO is planned to be the design feed to the Rare Earths Complex in Whyalla.

The dried concentrate from Nolan's Bore will be fed to a Pre–Leach circuit for early-stage chemical processing at the Whyalla site, which involves reacting it with hydrochloric acid to dissolve calcium and phosphate.

Rare earths in solution will be precipitated in a Rare Earths Recovery section and filtered to produce a solid Pre-Leach Residue and Precipitate (PLRP). The separated liquid phase will pass to a Hydrochloric Acid Regeneration circuit to produce di-calcium phosphate and gypsum co-products, and hydrochloric acid for re-use in the Pre-Leach circuit.

The PLRP will pass from the Rare Earths Recovery stage into a Sulphation stage where it will be baked with concentrated sulphuric acid and leached in water to dissolve the rare earths. Aluminium, iron and thorium will be removed as a solid residue during a Purification stage and the filtrate will pass through ion exchange to recover uranium. The rare earths-rich raffinate will be neutralised using soda ash to generate a mixed rare earth carbonate.

The mixed rare earth carbonate will then be dissolved in hydrochloric acid to produce the feed solution for a Rare Earths Separation process, comprising multiple solvent extraction circuits, to progressively separate and calcine to Arafura's five REO products (Cerium Oxide, Didymium Oxide, HRE Oxide, Lanthanum Oxide and SEG Oxide), which will be packaged for shipping to market.

Arafura first produced a mixed rare earth carbonate from its testwork program in 2009, and in 2012 the Company achieved a major milestone, generating separated REO products from material derived from Nolan's Bore.

Customers and Product Samples

Arafura intends to be a key supplier of rare earth products in high growth market segments in Japan, South Korea, Europe and the USA. Arafura is unique in producing and offering separated REO products to key customers for evaluation.

Arafura achieved significant milestones with regard to REO samples in the last 12 months. Separated Cerium Oxide, HRE Oxide, SEG Oxide and Didymium Oxide (Nd/Pr Oxide) have been produced at pilot scale for target customer evaluation. These products meet a target specification of 99% purity and a product evaluation program involving potential customers is in progress. Initial customer feedback has been positive and confirmed that the separated products are to defined product specifications.

OPERATIONS OVERVIEW

The Company is currently advancing efforts on producing Lanthanum Oxide; the last of its five separated REO products intended for initial commercialisation from the Nolan's Project.

During the year Arafura executed Memoranda of Understanding for rare earth products offtake with two multinational companies, as well as assistance with Project development and/or funding. Arafura will be seeking to lock in these and other offtake agreements prior to arranging funding for development of the Project.

Arafura signed a Letter of Intent with major German integrated materials and technology company, ThyssenKrupp Metallurgical Products, to develop an exclusive, long-term commercial agreement for the sale of Arafura's rare earth products into Germany. This is based on sales of rare earth products into the German market, primarily Cerium Oxide, Lanthanum Oxide and Didymium Oxide for polishing, auto-catalysts, battery and magnet applications.

Arafura envisages that this agreement will account for approximately 15 per cent, or 3,000 tonnes, of the Company's planned 20,000 tonnes of annual REO production from the Nolan's Project.

Arafura has also executed a non-binding Memorandum of Understanding with a major Korean multinational organisation to cooperate on long-term business arrangements in rare earths in Australia and Korea. A sale and purchase agreement is to be formalised for minimum sales of 3,000 tonnes per annum of rare earth products to the Korean market.

The Korean multinational has substantial experience in major construction projects, and its associated organisations have vast exposure to the chemicals industry and rare earth end-users in a key, globally significant market in Asia. The Korean company expects significant consumption of Didymium Oxide and Cerium Oxide, primarily for the magnet and polishing powder markets.

Sales in Japan are expected to include larger volumes of Cerium Oxide and Lanthanum Oxide to the glass, polishing powder and catalysts markets, together with volumes of Didymium, SEG and HRE Oxide products for magnet and phosphor applications.

Sales in the rest of Europe would be primarily Cerium Oxide and Lanthanum Oxide for polishing powder and catalyst applications. Sales in the USA are expected to include Lanthanum Oxide for fluid cracking catalysts , and HRE and SEG Oxide products for high technology applications.

Pricing

In 2010 and 2011, a 40 per cent reduction in Chinese export quotas and strong global demand significantly increased REO export prices. Average export prices in 2011 were five times 2010 prices, and in 2012 export prices remain above average long-term prices.

Access to reliable supply remains an issue of concern to non-Chinese end users, and to government policy makers in Japan, the USA, Europe and South Korea.

Arafura has developed a Base Case price forecast from 2012 to 2025 for five REO products that it intends to market. The weighted average price of Arafura's five products for 2010 and 2011 is calculated using historical individual REO prices in US$/kg FOB China from the trade website 'Metal Pages'.

The pricing forecast commences at a 2012 baseline price of US$60/kg FOB China and has a conservative compound annual growth rate of 1.4 per cent for the 2012 to 2025 period.

OPERATIONS OVERVIEW

The favourable supply and demand dynamics for Didymium, SEG and HRE Oxide products is expected to strengthen the price structure in Arafura's Base Case; although some of this will be offset by a nominal performance of Cerium Oxide and Lanthanum Oxide.

Arafura's Didymium Oxide product used for permanent magnet applications is expected to generate 50-60% of total revenue from the Nolan's Project over the forecast period. The Nolan's Project is one of the most Didymium-rich projects being advanced for development anywhere in the world.

Project Status and Forward Plan

The definitive Nolan's Project Update, announced in August 2012, established that the Nolan's Project Base Case has robust project economics and is expected to deliver excellent returns. There is a clear path forward to complete the development, and subsequent production and commercialisation of the Nolan's Project.

The core capital cost for the Project's Base Case is estimated at A$1,395 million, with ancillary plant costed at an additional A$517 million. The Base Case generates a net present value (NPV) for the Nolan's Project of A$4.3 billion with a 10% discount rate and an internal rate of return (IRR) of 30%, both calculated on an after tax basis over 20 years. On this basis, full capital payback will be achieved during the fourth year of operations.

Arafura is progressing its Base Case towards the key milestone of raising finance for the Nolan's Project. This includes finalising:

- The land acquisition in Whyalla for the processing plant;
- Production of a separated Lanthanum Oxide product to 99% purity;
- Refinement of marketing samples and offtake negotiations;
- Sulphation demonstration-scale plant operation for materials handling analysis;
- Public submissions for the Environmental Impact Statement studies;
- Mine and Plant Design engineering to levels of +/- 25% accuracy;
- Transport, logistics and raw material costings to +/- 25% accuracy; and
- Information Memoranda for potential investors and financiers.

A key final step to validate the process flowsheet and mass balance, as well as the major recycle circuits, is the successful operation of an Integrated Pilot Plant (IPP) that will be constructed early next year. The IPP results will also be used to verify the final engineering design.

In addition to progressing the Base Case feasibility study, Arafura has an ongoing program examining the potential for certain process improvements. This program could improve an already strong expected return from the Project. The Company is engaging rare earths expertise from China in regard to some parts of this program.

The larger part of this program is expected be completed by October 2012 and may result in changes to the Base Case if they satisfy the Company's criteria for development.

OPERATIONS OVERVIEW

Exploration

Arafura carefully balances its priority to develop the Nolan's 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 (100% Arafura)

Location	Reynolds Range, about 135 km north-north-west of Alice Springs.
Area Size	1,937 km^2
Granted Tenements	EL 28473, EL 28498, EL 27335, EL 27336, EL 27337, EL 28547
Tenement Applications	ML 26659, EL 29227, EL 29503, EL 29509
	Arafura also holds non-uranium exploration and development rights over adjoining licences held by NuPower Resources Limited (EL 24741 and EL 24548).

Iron Ore, Vanadium, Base Metals

Jervois (100% Arafura)

Location	290 km north-east of Alice Springs
Area Size	279 km^2
Granted Tenements	EL 10215, EL 26812

Gold

Mt Porter (100% Arafura less royalty interests)

Location	Pine Creek region, about 170 km south-east of Darwin
Area Size	25.3 km^2
Granted Tenements	ML 23839, ELR 116, EL 23237
	Arafura also holds gold exploration and development rights on a number of adjoining tenements held by Territory Resources Limited and Frances Creek Pty Ltd (MA 389, EL 10137, MLs 25087, 25529, 27227 and 27229, and parts of MLs 24727, 25088, 27225, 27226, 27228 and 27230).

Gold

Kurinelli (100% Arafura)

Location	150 km south-east of Tennant Creek
Area Size	182 km^2
Granted Tenements	MA 74 and MCC 950-953

Rare Earths, Base Metals
Hammer Hill (100% Arafura)

Location	Harts Range, about 180 km north-east of Alice Springs
Area Size	291 km^2
Granted Tenements	EL 9725, EL 10136

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.

Except for statutory liability which cannot be excluded, each of Arafura Resources and its related body corporates and their officers, employees and advisers expressly disclaims any responsibility for the accuracy or completeness of the material contained in this Operations Overview and excludes all liability whatsoever (including in negligence) for any loss or damage which may be suffered by any person as a consequence of any information in this Operations Overview or any error in it or omission from it. Arafura Resources accepts no responsibility to update any person regarding any inaccuracy, omission or change in information in this Operations Overview or any other information made available to a person, nor any obligation to furnish the person with any further information.

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).

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)".

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.

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 2012.

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:

C Tonkin(1)
S Lu(2)
A Losada-Calderon
I Kowalick(3)

(1) Mr Tonkin was appointed from Non-Executive Director to Non-Executive Chairman on the 3rd of December 2011. On the 1st of February 2012, Mr Tonkin stepped down as Chairman, being replaced by Mr Kowalick, and resumed his position as Non-Executive Director. On the 21st of March 2012, Mr Tonkin was appointed Chief Executive Officer.

(2) Ms Lu was appointed from Executive to Non-Executive Director on the 25th of November 2011.

(3) Mr Kowalick was elected Deputy Chairman on the 27th of July 2011 until the 25th November 2011, where he retired by rotation but was not re-elected. Mr Kowalick was re-appointed as Non-Executive Director on the 3rd of December 2011 and appointed Non-Executive Chairman on the 1st of February 2012.

<u>Other Details</u>

*Mr Muir retired as Non-Executive Director at the AGM held on the 25th of November 2011.

**On the 16th of February 2012, Mr Jackson, Mr Laurance, Mr Jones and Ms Reynolds elected to retire as Non-Executive Directors. Mr Ward also stepped down in his capacity as Managing Director and Chief Executive Officer.

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 $8,694,922 (2011: $7,461,996).

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 $8,200,255 (from $176,163,635 to $184,363,890) as a result of Arafura's Share Purchase Plan announced on the 22nd of February 2012. Funds from the capital raising are being used to complete the feasibility study and resource development at the Nolan's bore.

Details	Number of shares	Issue Price	$
Opening balance 1/07/11	367,980,342		176,163,635
Share Purchase Plan (SPP)	28,023,802	$0.29	8,238,998
Share issue transaction costs	-	-	(38,743)
Closing balance 30/6/12	396,004,144		184,363,890

(b) On the 19th of June 2012, Arafura announced to the market that it has executed a Letter of Intent ("LOI") with its major shareholder, ECE Nolan's Investment Company Proprietary Limited ("ECE") whereby ECE will subscribe for 45,266,500 shares at an issue price of A$0.22 per share, to provide approximately A$9.96 million in funding to the Company. The placement is to be made at a 10% premium over the Company's last trading day's closing price and 15 day VWAP of A$0.20 prior to the announcement on 19 June 2012.

The placement is subject to Shareholder approval at the Extraordinary General Meeting on 18 October 2012.

(c) Arafura has slowed down certain activities to manage existing cash reserves in the difficult economic environment and will focus on the completion of the Nolan's Feasibility study.

Matters subsequent to the end of the financial year

No other matter or circumstance has arisen since 30 June 2012 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 principal focus is the development of the Nolan's Rare Earth's Project which will comprise of the Nolan's Bore mine and beneficiation plant in the Northern Territory and processing plant in Whyalla, South Australia. The Rare Earth's deposit has a JORC Compliant resource to sustain production of approximately 20,000 tonnes per annum of Rare Earth Oxides sufficient for a period in excess of twenty years.

Environmental regulation

The Group is subject to environmental regulations and its Directors are not aware of any non-compliance with regulations concerning any of the Group's activities.

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 2011 to 30 June 2012, 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 John Kowalick BSc (Hons), BEc., AM Chairman and *Non-Executive Director*

Experience and expertise

Ian Kowalick has qualifications in science, engineering, economics and finance. Ian has worked in technical and project consulting, economic and business analysis for resource companies, banking and investment. From 1995 to 2000, he held the most senior management position in the South Australian public sector.

Ian is currently a Director and Consultant. At present, he is a Director of NuPower Resources Limited, Chairman of Playford Capital, a councillor of the University of Adelaide and Chair of its Finance Committee, and Deputy Chair of the Adelaide Festival Centre Trust.

Other current Directorships

Director of Nupower Resources.
Chairman of Playford Capital.

Former Directorships in the last 3 years

Syngas Limited.

Special responsibilities

Chairman of the Board.
Member of the Audit and Risk Committee.
Member of the Remuneration and Nomination Committee.

Interests in shares and options

577,007 ordinary shares in Arafura Resources Limited *(indirect).*

Information on Directors (cont)

Christopher Stephen Tonkin BSc (Hons), BA, MBA. *Managing Director and Chief Executive Officer*

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

750,000 unlisted options in Arafura Resources Limited *(direct).*

Information on Directors (cont)

Shasha Lu PhD, Masters Degree. *Non-Executive Director*

Experience and Expertise

Ms. Shasha Lu was Executive Director and CEO of Hong Kong East China Non-Ferrous Mineral Resources Co. Ltd. (HKECE), a wholly owned subsidiary of Eastern China Exploration and Development Bureau (ECE). HKECE holds the foreign business interests of ECE.

Ms Lu also 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.

In 2008, Ms Lu Shasha joined Eastern China Exploration and Development Bureau and became the Executive Director and CEO of Hong Kong East China Non-Ferrous Mineral Resources Co Ltd. Ms Lu is also a Director of Australian ECE Nolan's Investment Limited and ECE Nolan's.

Other current Directorships
Globe Metals and Mining Ltd.

Former Directorships in the last 3 years
None.

Special responsibilities
Member of Remuneration and Nomination Committee.

Interests in shares and options
1,500,000 Options.

Information on Directors (cont)

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

Experience and expertise

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 organizations; and feasibility studies and the development of major mining projects in the Caribbean, Latin America and East and South Eastern Asian Countries.

Dr Losada-Calderon is the Managing Director of TAE Resources Pty LTd. TAE is a private consultancy company that provides strategic advice for mining companies in the areas of mineral exploration, project acquisitions and financing, partnerships and JV's.

It also provides business development, project assessment and company valuations. Until the end of July 2009, Dr Losada-Calderon was the Vice-President of Exploration and Business Development for Southwestern Resources Corp. located in Vancouver, Canada. SWG had its major projects in Peru and China and was taken over by Hochschild Mining PLC of London in July 2009.

Dr Losada-Calderon is also a Director of ECE Nolan's and AOSU Investment and Development Co. Ltd.

Other current Directorships

None.

Former Directorships in the last 3 years

None.

Special responsibilities

Chairman of the Audit Committee.
Chairman of the Remuneration and Nomination Committee

Interests in shares and options

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

Information on Directors (cont)

Ian James Laurance, AM.

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.

On the 16th of February 2012 Mr Laurance elected to retire from his capacity as Non-Executive Director.

Other current Directorships

Non-Executive Director and Chairman of Axiom Properties Limited.

Former Directorships in the last 3 years

None.

Special responsibilities

None.

Interests in shares and options at the time of cessation

120,000 ordinary shares in Arafura Resources Limited *(direct).*
100,000 ordinary shares in Arafura Resources Limited *(indirect).*

Information on Directors (cont)

Stephen Ward, BSc (Hons) Chemistry, PhD Physical Chemistry.

Experience and expertise

Stephen Ward had 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) and PhD in Physical Chemistry (1979).

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 had 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.

Stephen then formed his own consulting business providing services to the resources and chemicals industries to which he subsequently joined Cristal, a Saudi Arabian based titanium pigment producer as Senior Vice President Strategy and Development for a 3 year period.

Steve is a graduate of the Australian Institute of Company Directors.

On the 16th of February 2012, Mr Ward stepped down in his capacity as Managing Director and Chief Executive Officer.

Other current Directorships

None.

Former Directorships in the last 3 years

None.

Special responsibilities

None.

Interests in shares and options at the time of cessation

145,000 ordinary shares in Arafura Resources Limited *(direct).*

Information on Directors (cont)

Irvin (Mick) Graham Muir BA (Econ).

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.

Mr Muir retired in his capacity as Non-Executive Director at the AGM held on the 25th of November 2011.

Other current Directorships

Non-Executive Director of NuPower Resources Limited.

Former Directorships in the last 3 years

None.

Special responsibilities

None.

Interests in share and options at the time of cessation

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

Information on Directors (cont)

Terry Roy Jackson AM, KLJ.

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.

On the 16th of February 2012, Mr Jackson elected to retire from his capacity as Non-Executive Director.

Other current Directorships

Uranium Australia Ltd.

Former Directorships in the last 3 years

None.

Special responsibilities

None.

Interests in shares and options at the time of cessation

5,256,535 ordinary shares in Arafura Resources Limited *(indirect).*

Information on Directors (cont)

Lloyd Jones BE, MBA.

Experience and expertise

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 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.

Mr Jones joined Alcoa Inc. in 1982 following a period with Wesfarmers CSBP Ltd. His career with Alcoa progressed through various mining, chemical and mineral processing roles, General Manager of Western Australian Operations, to President of the company's US Smelting Business, with responsibility for global manufacturing coordination. His last role with Alcoa was based in Asia as President Alcoa Asia Pacific. Mr Jones joined Cerberus Capital Management in 2007, as President and Managing Director of Cerberus Asia Advisors, responsible for activities in Greater Asia and Australia. He is currently a member of the board of the Myer Family Company.

Mr Jones holds a Bachelor of Engineering and an MBA from the University of Western Australia. He is a graduate of the Australian Institute of Company Directors and Fellow of the Australian Institute of Management.

Mr Jones was appointed as an Independent Non-Executive Director on the 30th of August 2011. On the 16th of February 2012, Mr Jones elected to retire from his capacity as a Director.

Other current Directorships

None.

Former Directorships in the last 3 years

None.

Special responsibilities

None.

Interests in shares and options at the time of cessation

None.

Information on Directors (cont)

Loretta Reynolds BEc, LL.B

Experience and expertise

Ms Reynolds is a corporate lawyer specialising in complex commercial transactions and 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. She is based in Adelaide.

Ms Reynolds 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.

Ms Reynolds was appointed as an Independent Non-Executive Director on the 16th of September 2012. On the 16th of February 2012, Ms Reynolds elected to retire from her capacity as a Director.

Other current Directorships

None.

Former Directorships in the last 3 years

None.

Special responsibilities

None.

Interests in shares and options at the time of cessation

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 2012 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 and risk committee meetings held**	**Audit and risk committee meetings attended**	**Remuneration and nomination committee held**	**Remuneration and nomination committee attended**
Ian Laurance	22	22	n/a	n/a	2	1
Mick Muir	7	6	n/a	n/a	2	1
Ian Kowalick	25	25	2	2	2	2
Alex Losada-Calderon	27	27	1	1	n/a	n/a
Shasha Lu	27	23	n/a	n/a	n/a	n/a
Terry Jackson	21	20	1	1	n/a	n/a
Chris Tonkin	28	28	2	2	n/a	n/a
Steve Ward	22	22	n/a	n/a	n/a	n/a
Lloyd Jones	19	19	n/a	n/a	n/a	n/a
Loretta Reynolds	19	18	n/a	n/a	n/a	n/a

As at 30 June 2012 the committees of Arafura are comprised of the following:

- Dr. Alex Losada Calderon is Chairman of both the Audit and Risk and Remuneration and Nomination Committees.
- Mr. Tonkin is a member of the Audit and Risk Committee.
- Ms. Lu is a member of the Remuneration and Nomination Committee.
- Mr. Kowalick is a member of both the Audit and Risk and Remuneration and Nomination Committees.

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 and Nomination Committee engaged independent consultants to benchmark Directors and Executive fees against the prevailing market conditions for the period commencing 1 July 2012.

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.

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.

Remuneration report (audited) - (cont)

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 $1,000,000 per annum.

The following fees have applied:

	Year ended 30 June 2012	From 1 July 2012
Base Fees		
Chairman	$135,000	$135,000
Deputy Chairman	$102,500	$102,500
Other Non-Executive Directors	$70,000	$70,000
Additional Fees		
Audit and risk committee – Chairman	*	*
Audit and risk committee – member	*	*
Remuneration and nomination committee - Chairman	*	*
Remuneration and nomination committee - member	*	*

*****_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 2012.

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 Former Chairman, Ian Laurance received a pro-rata reimbursement for telecommunications and 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 which comprise the Executive's total remuneration:

- base pay and benefits;
- short-term performance (cash based) incentives;
- long-term incentives through participation in the Employee Share Option Plan or via share rights; and
- other 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 Mcdonald and Company (Australia) Pty Ltd were paid $11,500 (GST excl.) to 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 $1,100.

All Key Management Personnel's remuneration remained frozen effective on 1 July 2012 and will be subject to a revision on 31 December 2012.

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 and CEO taking into consideration market trends and independent expert advice. For the 30 June 2012 financial year, an incentive payment was made to Mr Steve Ward (Managing Director and CEO) totalling $177,660 for Short Term Incentive schemes that were in place for the 2012 financial year and 2011 Calendar year.

For the year ended 30 June 2012, there were two KPI's for Executives (excluding the Managing Director and CEO) which are totally aligned with shareholder interests; relating to progress towards the completion of the Feasibility Study and progress towards securing project finance.

Remuneration report (audited) - (cont)

The Remuneration and Nomination committee is responsible for assessing whether KPIs are met.

Mr Ward's short term incentives were 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 2012 no Short-Term Incentives were paid to Executives 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.

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.

No bonus payments other than as indicated in the remuneration table on page 38 were paid during the reporting period.

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 Directors of Arafura Resources Limited and those Executives that report directly to the Managing Director and CEO being:

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

** Steve Mackowski resigned from Arafura on the 1st of September 2011.*

Voting and comments made at the company's 2011 Annual General Meeting

Arafura Resources Ltd received more than 55% of "for" votes on its remuneration report for the 2011 financial year. The company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

As more than 25% of the votes cast on the resolution to adopt the remuneration report were voted "against", under what is referred to as the "two strikes" rule, if the remuneration report has again received more than 25% votes cast "against" in the 2012 AGM, the company will be required to put to shareholders a resolution proposing the calling of an extraordinary general meeting to consider the appointment of new Directors to the company (known as a Spill Resolution).

Remuneration report (audited) - (cont)

	Short–term benefits			Post–employment benefits	Long-term benefits		Share-based payments		
2012 **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 Laurance	74,250	-	812	8,910	-	-	-	83,972	-
I Kowalick	107,853	-	-	12,942	-	-	-	120,795	-
T Jackson	5,833	-	-	40,833	-	-	-	46,666	-
I Muir	29,167	-	-	3,500	-	-	-	32,667	-
A Losada-Calderon	61,667	-	-	7,400	-	-	339,209	408,276	83%
C Tonkin[(1)]	130,417	-	-	50,117	-	-	76,286	256,820	30%
L Reynolds	32,128	-	-	3,855	-	-	-	35,983	-
L Jones	36,516	-	-	3,286	-	-	-	39,802	-
S Lu	217,382	-	-	26,086	-	-	101,714	345,182	29%
Executive Directors									
S Ward[(2)]	763,810	177,660	1,895	33,336	-	444,700	-	1,421,401	-
Other key management personnel (Group)									
S Mackowski	65,880	-	1,624	11,008	-	-	5,885	84,397	7%
R Brescianini	276,229	-	2,166	24,870	8,640	-	58,449	370,354	16%
N Graham	316,576	-	2,166	37,989	382	-	177,526	534,639	33%
J Ganser	340,560	-	2,166	30,649	432	-	195,611	569,418	34%
G Lockyer	303,852	-	2,166	27,347	27,361	-	60,971	421,697	14%
Total	**2,762,120**	**177,660**	**12,995**	**322,128**	**36,815**	**444,700**	**1,015,651**	**4,772,069**	**21%**

(1) Includes $90,000 (GST Exclusive) for executive consultancy services at standard commercial rates.

(2) Steve Ward's bonus relates to the achievement of a 2011 Calendar Year Short Term Incentive Loyalty Bonus, being 20% of his Total Fixed Remuneration.

Remuneration report (audited) - (cont)

	Short–term benefits			Post–employment benefits	Long-term benefits		Share-based payments		
2011 **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 Laurance	112,500	-	2,092	13,650	-	-	-	128,242	-
I Kowalick	70,000	-	-	8,450	-	-	-	78,450	-
T Jackson	57,500	-	-	7,150	-	-	-	64,650	-
I Muir	57,708	-	-	7,150	-	-	-	64,858	-
A Losada-Calderon	52,500	-	-	6,325	-	-	440,677	499,502	88%
C 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 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 was 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 of Projects on 13 September 2010.

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 and 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:

C Tonkin, *Managing Director* and *Chief Executive Officer*
- No term of agreement.
- $30,000 (GST Exclusive) to be paid per month to Catalyst Capital Solutions Pty Ltd for services performed as Chief Executive Officer.
- Payment of $78,400 per annum inclusive of superannuation for Non-Executive Director Fees.
- No termination payments/benefits are to be made due to the consultancy agreement established between Arafura Resources Ltd and Catalyst Capital Solutions Pty Ltd.

G J Lockyer, *Chief Financial Officer and Company Secretary*
- No term of agreement.
- Base salary inclusive of superannuation, for the year ended 30 June 2012 of $330,000.
- An annual $1,100 allowance for general health and wellbeing.
- 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 29.
- 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.

R Brescianini, *General Manager Strategic Development and Exploration*
- No term of agreement.
- Base salary inclusive of superannuation, for the year ended 30 June 2012 of $300,000.
- An annual $1,100 allowance for general health and wellbeing.
- 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 29.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to three months of the base salary.

Remuneration report (audited) - (cont)

- Payment of termination benefit on the position becoming redundant, equal to six months of the base salary.

N Graham, *General Manager of Operations and Technology*

- No term of agreement.
- Base salary inclusive of superannuation for the year ended 30 June 2012 of $330,000.
- An annual $1,100 allowance for general health and wellbeing.
- 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 29.
- Reimbursement of $20,833 in FY 12 for relocation costs incurred in FY 11 as a result of his employment with Arafura.
- 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.

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 2012 of $370,000.
- An annual $1,100 allowance for general health and wellbeing.
- 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 29.
- 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.

S Ward, *Managing Director and Chief Executive Officer (stepped aside)*

- No term of agreement.
- Base salary inclusive of superannuation for the year ended 30 June 2012 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.

Remuneration report (audited) - (cont)

S J Mackowski, *General Manager of Technology (resigned)*

- No term of agreement.
- Base salary, inclusive of superannuation, for the year ended 30 June 2012 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.

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
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	100%
1-Sep-10	31-Aug-11	31-Aug-13	$0.98	$0.36	100%
13-Sep-10	31-Aug-11	14-Sep-13	$1.08	$0.49	100%
25-Nov-10	24-Nov-11	26-Nov-13	$1.54	$0.67	100%
15-Jul-11	16-Jul-12	16-Jul-14	$0.96	$0.27	0%
15-Nov-11	31-Dec-12	13-Dec-14	$0.81	$0.19	0%
25-Nov-11	24-Nov-12	24-Nov-14	$0.70	$0.17	0%

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

The exercise price of the options issued during the 2012 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.

Remuneration report (audited) - (cont)

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 21 and 29 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 Laurance	-	-	-	(2,000,000)	(771,388)
S Ward	3,500,000	596,050	-	(3,500,000)	(596,050)
I Kowalick	-	-	-	(1,500,000)	(578,541)
T Jackson	-	-	-	(1,500,000)	(578,541)
I Muir	-	-	-	-	-
S Lu	1,000,000	170,300	-	-	-
A Losada-Calderon	400,000	68,120	1,100,000	-	-
L Jones	750,000	127,725	-	(750,000)	(127,725)
L Reynolds	750,000	127,725	-	(750,000)	(127,725)
C Tonkin	750,000	127,725	-	-	-
Other key management personnel of the Group					
G Lockyer	200,000	54,960	500,000	-	-
S Mackowski	-	-	350,000	(350,000)	(107,100)
R Brescianini	200,000	54,960	350,000	-	-
N Graham	500,000	137,400	750,000	-	-
J Ganser	500,000	137,400	750,000	-	-

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 2012 are contained in note 29 of the notes to the financial statements.

Shares provided on exercise of remuneration options

No options were converted to shares by any Key Management Personnel during the 30 June 2012 financial year.

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 and 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 2012 is detailed below:

Remuneration report (audited) - (cont)

	Bonus		Options				
Name	Paid %	Forfeited %	Year granted	Vested %	Forfeited %	Financial years in which options may vest. Year	Maximum total value of grant yet to vest. $
	-	-	2012	-	100	-	-
	-	-	2011	-	-	-	-
	-	-	2010	-	-	-	-
I Laurance	-	-	2009	-	-	-	-
	-	-	2012	-	100	-	-
	-	-	2011	-	-	-	-
	-	-	2010	-	-	-	-
I Kowalick	-	-	2009	-	-	-	-
	-	-	2012	-	100	-	-
	-	-	2011	-	-	-	-
	-	-	2010	-	-	-	-
T Jackson	-	-	2009	-	-	-	-
	20	80	2012	-	100	-	-
	100	-	2011	-	-	-	-
	-	-	2010	-	-	-	-
S Ward	-	-	2009	-	-	-	-
	-	-	2012	-	-	-	-
	-	-	2011	-	-	-	-
	-	-	2010	-	-	-	-
I Muir	-	-	2009	-	-	-	-
	-	-	2012	-	-	2013	68,587
	-	100	2011	-	-	-	-
	-	-	2010	-	-	-	-
S Lu	-	-	2009	100	-	2011	216,811
	-	-	2012	73	-	2013	27,435
	-	-	2011	-	-	2012	298,523
	-	-	2010	-	-	-	-
A Losda-Calderon	-	-	2009	-	-	-	-
C Tonkin	-	-	2012	-	-	2013	51,440
L Jones	-	-	2012	-	100	-	-
L Reynolds	-	-	2012	-	100	-	-
	-	-	2012	-	100	-	-
	-	100	2011	-	-	2012	5,885
	-	-	2010	-	-	-	-
S Mackowski	-	-	2009	100	-	2011	415,332
	-	100	2012	64	-	2013	2,396
	-	100	2011	-	-	2012	5,885
	-	-	2010	-	-	-	-
R Brescianini	-	-	2009	100	-	2011	415,332
	-	100	2012	71	-	2013	2,396
	-	100	2011	-	-	2012	8,407
	100	-	2010	-	-	-	-
G Lockyer	-	-	2009	100	-	2011	415,332
	-	100	2012	60	-	2013	5,990
N Graham	-	100	2011	-	-	2012	46,117
	-	100	2012	60	-	2013	5,990
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 2012.

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.

In addition the Company paid a working Directors insurance premium for Steve Ward to the value of $2,019.

This is the end of the audited remuneration report.

PROVISION OF AUDIT AND NON-AUDIT SERVICES
FOR THE YEAR ENDED 30 JUNE 2012

Non-audit services

No non-audit services were provided by BDO in the 2011 and 2012 Financial Years. As a result, The Board is satisfied that 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.

Details of the provision of audit services by *BDO Audit (WA) Pty Ltd*, can be found at note 22 of this financial report.

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 49.

Signed in accordance with a resolution of the Directors.

C Tonkin
Managing Director and Chief Executive Officer

I Kowalick
Chairman

Perth, Western Australia
25 September 2012

Tel: +8 6382 4600
Fax: +8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

25 September 2012

The Board of Directors
Arafura Resources Limited
Level 5, 16 St George's Terrace
PERTH, WA 6000

Dear Sirs

DECLARATION OF INDEPENDENCE BY GLYN O'BRIEN TO THE DIRECTORS OF ARAFURA RESOURCES LIMITED

As lead auditor of Arafura Resources Limited for the year ended 30 June 2012, 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; and
- 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.

Glyn O'Brien
Director

BDO Audit (WA) Pty Ltd
Perth, Western Australia

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" reporting 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.

The following governance-related documents can be found on the Company's website at www.arafuraresources.com.au, under the section marked "Corporate Governance".

Charters
Board
Audit Committee
Nomination Committee
Remuneration Committee

Policies and Procedures
Policy and Procedure for Selection and (Re)Appointment of Directors
Process for Performance Evaluations
Policy on Assessing the Independence of Directors
Diversity Policy
Code of Conduct (summary)
Policy on Continuous Disclosure (summary)
Compliance Procedures (summary)
Procedure for the Selection, Appointment and Rotation of External Auditor
Shareholder Communication Policy
Risk Management Policy (summary)
Whistleblower Policy (summary)
Policy for Trading in Company Securities

The Company reports below on how it has followed (or otherwise departed from) each of the recommendations during the 2011/2012 financial year (**Reporting Period**). The information in this statement is current at 21 September 2012.

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.

Corporate Governance Statement (cont)

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.

Senior executives are responsible for supporting the Managing Director and Chief Executive Officer and assisting the Managing Director and 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 and Chief Executive Officer or, if the matter concerns the Managing Director and Chief Executive Officer, directly to the Chair or the lead Independent Director, as appropriate.

The Company's Board Charter is disclosed 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 skills, experience, expertise and period of office is contained in the Directors' Report.

The Board is seeking members with the necessary mix of skills, diversities and abilities appropriate to a major project development such as the Nolan's Project. The objective of the Board is to complement existing Board skill sets that include mining, finance, business analysis and regulatory skills, combined with local and international business experience and acumen. New Board members will ideally possess one or more skill sets drawn from legal, governance, project construction and execution, operational, rare earths industry, chemical processing and/or minerals processing backgrounds and assist the Company to achieve its diversity objectives.

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

At the commencement of the Reporting Period, the Board comprised the following Directors:

Name	Independent status	Executive/Non-Executive
Mr Ian Laurance (Chair)	Independent	Non-Executive
Mr Steve Ward	Non-Independent	Executive – Managing Director
Ms Shasha Lu	Non-Independent	Executive
Mr Ian Kowalick	Independent	Non-Executive
Mr Irvin (Mick) Muir	Independent	Non-Executive
Mr Terry Jackson	Independent	Non-Executive
Mr Alex Losada-Calderon	Non-Independent	Non-Executive
Mr Chris Tonkin	Independent	Non-Executive

Corporate Governance Statement (cont)

During the Reporting Period, the Board implemented a "Board Refresh Program" which was designed to continue to equip the Board with the necessary skills as the Company transitions from emerging company status through a construction phase to an operational phase. The following changes were made to the Board:

- Mr Lloyd Jones was appointed as an Independent Non-Executive Director of the Company on 30 August 2011.
- Ms Loretta Reynolds was appointed as an Independent Non-Executive Director of the Company on 16 September 2011.
- Ms Shasha Lu completed her duties as an executive on 25 November 2011 and continued as a member of the Board in a Non-Executive capacity.
- Mr Irvin (Mick) Muir retired by rotation and resigned on 25 November 2011.
- Mr Ian Kowalick retired by rotation on 25 November 2011 and was not re-elected to the Board, but was re-appointed to the Board on 3 December 2011.
- Mr Ian Laurance stepped down as Non-Executive Chair on 3 December 2011 (to remain as a Non-Executive Director), and the position was taken over on an interim basis by Chris Tonkin prior to Mr Kowalick taking over the role.
- Mr Ian Kowalick was appointed Non-Executive Chair on 1 February 2012.

Confronted by a global financial market that is reluctant to invest, the Company announced in February 2012 that it would focus its available capital on activities aimed at resolving technical issues with the Nolan's Project and progressing discussions with international investors with a strategic interest in rare earths. As a consequence, the input required of the Board changed and further changes were also made to the Board and management of the Company, which saw Mr Jones and Ms Reynolds retire, and Mr Laurance and Mr Jackson elect to retire early on 16 February 2012. Further, given the re-alignment of the development strategy, Mr Ward stepped down as Managing Director and Chief Executive Officer on 16 February 2012. As of 21 March 2012, Mr Chris Tonkin was appointed Managing Director and Chief Executive Officer of the Company while the Company works through the current transitional period.

The current composition of the Board (since 16 February 2012) is as follows:

Name	Independent status	Executive/Non-Executive
Mr Ian Kowalick (Chair)	Independent	Non-Executive
Mr Chris Tonkin*	Non-Independent	Executive
Ms Shasha Lu	Non-Independent	Non-Executive
Mr Alex Losada-Calderon	Non-Independent	Non-Executive

* As noted above, Mr Tonkin was appointed Managing Director and Chief Executive Officer on 21 March 2012, at which time his status changed from Independent Non-Executive Director to Non-Independent Executive Director.

For the majority of the Reporting Period (until 16 February 2012), the Board had a majority of Independent Directors. However, with the retirement of Mr Jones, Ms Reynolds, Mr Jackson and Mr Laurance on 16 February 2012, the Board was left with an equal number of Independent and

Corporate Governance Statement (cont)

Non-Independent Directors. On 21 March 2012, when Mr Tonkin was appointed Managing Director and Chief Executive Officer, his status changed from Independent to Non-Independent with the consequence that the Board now comprises a majority of Non-Independent Directors. As announced by the Company during the Reporting Period, the size of its Board and management has been reduced to levels consistent with the Company's current financial resources, and will be reviewed pending inflow of additional funds.

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 the following guidelines, as set out in the Company's Board Charter 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%.
- 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 Independent Directors at times during the Reporting Period were Mr Laurance, Mr Kowalick, Mr Jackson, Mr Tonkin (until 21 March 2012), Mr Jones and Ms Reynolds. These Directors were Independent as they were Non-Executive Directors who were not members of management and who were free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the Independent exercise of their judgment.

The Non-Independent Directors of the Company at times during the Reporting Period were Dr Ward, Ms Lu, Mr Losada-Calderon and Mr Tonkin (from 21 March 2012).

The Board had an Independent Chair at all times during the Reporting Period; Mr Laurance was Chair from 1 July 2011 to 3 December 2011, Mr Tonkin was Chair from 3 December 2011 to 31 January 2012 and Mr Kowalick is the current Chair, appointed on 1 February 2012.

Mr Ward was Managing Director and Chief Executive Officer of the Company until 16 February 2012, and Mr Tonkin took over the role of Managing Director and Chief Executive Officer of the Company on 21 March 2012 after relinquishing the Chair on 31 January 2012.

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 disclosed on the Company’s website.

Corporate Governance Statement (cont)

Board committees

Nomination and Remuneration Committee (Recommendations: 2.4, 2.6, 8.1, 8.2, 8.3, 8.4)

The Board has established a combined Nomination and Remuneration Committee. The composition of the committee changed during the Reporting Period, with the Board changes outlined above. At the commencement of the Reporting Period, the Nomination and Remuneration Committee comprised the following Directors, was structured in compliance with Recommendation 8.2 and comprised solely of Non-Executive Directors in compliance with Listing Rule 12.8:

Name	Independent status	Executive/Non-Executive
Mr Ian Kowalick (Chair)	Independent	Non-Executive
Mr Ian Laurance	Independent	Non-Executive
Mr Irvin (Mick) Muir	Independent	Non-Executive

On 25 November 2011, Mr Kowalick and Mr Muir both retired from the Board and for the period between 25 November 2011 and 31 January 2012, the Nomination and Remuneration Committee comprised only Mr Laurance. During this period, the Nomination and Remuneration Committee was not structured in compliance with Recommendation 8.2 as it comprised only one member. No meetings were held during this period, and the composition of the Nomination and Remuneration Committee was re-structured on 1 February 2012.

For the period 1 February 2012 to 16 February 2012, the Nomination and Remuneration Committee comprised:

Name	Independent status	Executive/Non-Executive
Mr Lloyd Jones (Chair)	Independent	Non-Executive
Mr Ian Laurance	Independent	Non-Executive
Mr Ian Kowalick*	Independent	Non-Executive
Mr Chris Tonkin	Independent	Non-Executive

* Mr Kowalick was reappointed to the Board on 3rd December 2011.

During this period, the Nomination and Remuneration Committee was structured in compliance with Recommendation 8.2 and Listing Rule 12.8.

Following Messrs Laurance and Jones retirement from the Board on 16 February 2012, from 20 February 2012, Mr Tonkin was appointed as Chair and Ms Lu joined the committee. During this period, the Nomination and Remuneration Committee was not structured in compliance with Recommendation 8.2 as it did not comprise a majority of Independent Directors and was not Chaired by an Independent Chair from 21 March 2012. It was also not structured in compliance with Listing Rule 12.8, as it did not comprise solely Non-Executive Directors.

Corporate Governance Statement (cont)

On 28 June 2012, Mr Losada-Calderon joined the Nomination and Remuneration Committee and was appointed Chair of the Nomination and Remuneration Committee, replacing Mr Tonkin. The current Nomination and Remuneration Committee (since 28 June 2012) comprises:

Name	Independent status	Executive/Non-Executive
Mr Losada-Calderon (Chair)	Non-Independent	Non-Executive
Ms Shasha Lu	Non-Independent	Non-Executive
Mr Ian Kowalick	Independent	Non-Executive

The current Nomination and Remuneration Committee is not structured in compliance with Recommendation 8.2, as it does not have a majority of Independent Directors, nor is it Chaired by an Independent Chair. The current structure of the Board does not permit the Board to establish a Nomination and Remuneration Committee that is structured in compliance with Recommendation 8.2. The current Nomination and Remuneration Committee is structured in compliance with Listing Rule 12.8. Details of the Directors' attendance at Nomination and Remuneration Committee meetings are set out in the Directors' Report.

The Company has adopted Nomination and Remuneration Committee Charters that describe the role, composition, functions and responsibilities of the Nomination and Remuneration Committees. As noted above, the Board has combined these committees.

Details of remuneration, including the Company's policy on remuneration, are contained in the "Remuneration Report" which forms 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 that limit the risk of participating in unvested entitlements under any equity based remuneration schemes.

The Company’s Nomination Committee Charter and Remuneration Committee Charter are disclosed on the Company’s website.

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

The Board has established an Audit and Risk Committee.

The composition of the committee changed during the Reporting Period, with the Board changes outlined above. At the commencement of the Reporting Period, the Audit and Risk Committee comprised the following Directors and was structured in accordance with Recommendation 4.2:

Name	Independent status	Executive/Non-Executive
Mr Ian Kowalick	Independent	Non-Executive
Mr Chris Tonkin (Chair)	Independent	Non-Executive
Mr Irvin (Mick) Muir	Independent	Non-Executive
Mr Terry Jackson	Independent	Non-Executive

Mr Ian Kowalick retired by rotation on 25 November 2011 and was not re-elected to the Board, but was re-appointed to the Board on 3 December 2011. Mr Irvin (Mick) Muir retired by rotation and resigned on 25 November 2011. During this period from 25 November 2011 to 31 January 2012, the Audit and Risk Committee comprised two members and was not structured in accordance with Recommendation 4.2.

For the period 1 February 2012 to 16 February 2012, the Audit and Risk Committee was split into separate committees. The Audit Committee comprised:

Name	Independent status	Executive/Non-Executive
Mr Chris Tonkin (Chair)	Independent	Non-Executive
Mr Terry Jackson	Independent	Non-Executive
Mr Ian Kowalick	Independent	Non-Executive
Ms Loretta Reynolds	Independent	Non-Executive

During this period, the Audit Committee was structured in compliance with Recommendation 4.2.

Following the retirement of Mr Jackson and Ms Reynolds from the Board on 16 February 2012, the Audit Committee and Risk Committee were combined, and Mr Alex Losada Calderon joined the Audit and Risk Committee on 20 February 2012. During this period, the Audit and Risk Committee

Corporate Governance Statement (cont)

was not structured in compliance with Recommendation 4.2 as it was not chaired by an Independent Chair and did not comprise a majority of Independent Directors.

On 28 June 2012, Mr Losada-Calderon was appointed Chair of the Audit and Risk Committee. The current Audit and Risk Committee comprises:

Name	Independent status	Executive/Non-Executive
Mr Chris Tonkin	Not Independent	Executive
Mr Alex Losada Calderon (Chair)	Not Independent	Non-Executive
Mr Ian Kowalick	Independent	Non-Executive

The current Audit and Risk Committee is not structured in accordance with Recommendation 4.2 as it is not chaired by an Independent Chair and does not comprise a majority of Independent Directors. The current structure of the Board does not permit the Board to establish an Audit and Risk Committee that is structured in compliance with Recommendation 4.2.

Details of the Directors' attendance at Audit and Audit and Risk Committee meetings are set out in the Directors' Report.

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

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 a Procedure 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 Procedure for the Selection, Appointment and Rotation of its External Auditor are disclosed on the Company's website.

Performance evaluation

Senior executives
(Recommendations: 1.2, 1.3)

The Managing Director and Chief Executive Officer is responsible for evaluating the performance of senior executives on an annual basis. The Managing Director and Chief Executive Officer holds individual meetings with each senior executive to review performance, during which the senior

Corporate Governance Statement (cont)

executive's performance is reviewed.

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

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 and Chief Executive Officer.

Following and as a result of the Board and management changes that took place during the Reporting Period, an evaluation of the Board, its committees, individual Directors and the Managing Director and Chief Executive Officer did not take place.

The Company's Process for Performance Evaluation is disclosed on the Company's website.

Ethical and responsible decision making

Code of Conduct
(Recommendations: 3.1, 3.5)

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 disclosed on the Company's website.

Diversity
(Recommendations: 3.2, 3.3, 3.4, 3.5)

The Company has established a Diversity Policy, which includes requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress towards achieving them.

The Board has not set measurable objectives for achieving gender diversity. During the Reporting Period, the Board underwent a number of changes as outlined above, and the Board's focus has been on identifying sources of additional funding to complete the Feasibility Study for the Nolan's Project. However, the Board intends to establish measurable objectives for achieving gender diversity in the second quarter of 2012/2013 financial year. The measurable objectives established, and the Company's progress towards achieving the objectives will be disclosed in the Company's 2013 Annual Report.

Corporate Governance Statement (cont)

The proportion of women employees in the whole organisation, women in senior executive positions and women on the Board are set out in the following table:

Personnel Level	Proportion of women
Whole organisation	7 out of 25 (28%)
Senior executive positions	0 out of 4 (0%)
Board	1 out of 4 (25%)

The Company's Diversity Policy is disclosed 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.

A summary of the Company's Policy on Continuous Disclosure and Compliance Procedures are disclosed 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. The Company's Shareholder Communication Policy is disclosed 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 and Chief Executive Officer**,** who is responsible for identifying, assessing, monitoring and managing risks. The Managing Director and 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 and Chief Executive Officer may have unrestricted access to Company employees, contractors and records and may obtain independent expert advice on any matter believed to be 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 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 marking.

The Board has 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 for the Reporting Period.

The Managing Director and 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 STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2012

		Consolidated	
		2012	2011
	Notes	**$**	$
Revenue from continuing operations	5	2,097,194	3,346,530
Other income	5	523,223	(5,930)
Employee benefits expense	6	(6,485,791)	(7,027,990)
Project feasibility and evaluation	6	(158,567)	(72,448)
Other expenses	6	(4,417,806)	(3,460,245)
Depreciation and amortisation	6	(181,951)	(230,366)
Finance costs	6	(2,958)	(5,556)
Impairment of assets	6	(68,266)	(5,991)
Loss before income tax		**(8,694,922)**	**(7,461,996)**
Income tax benefit	7	-	-
Loss for the year		**(8,694,922)**	**(7,461,996)**
Other comprehensive loss			
Changes in the fair value on assets	12	(12,519)	(95,368)
Other comprehensive loss for the year		**(12,519)**	**(95,368)**
Total comprehensive loss for the year		**(8,707,441)**	**(7,557,364)**
Total comprehensive loss for the year attributable to owners of Arafura Resources Limited		**(8,707,441)**	**(7,557,364)**
		Cents	**Cents**
Loss per share attributable to owners of Arafura Resources Limited			
Basic loss per share	24	(2.3)	(2.2)
Diluted loss per share	24	(2.3)	(2.2)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2012

		Consolidated	
	Notes	2012 $	2011 $
CURRENT ASSETS			
Cash and cash equivalents	8	19,545,603	70,223,566
Trade and other receivables	9	531,876	1,851,072
Non-current assets held for sale	10	-	749,033
Total Current Assets		**20,077,479**	**72,823,671**
NON-CURRENT ASSETS			
Receivables and deposits	11	2,000,000	2,000,000
Available-for-sale financial assets	12	-	739,102
Property, plant and equipment	13	362,011	498,920
Deferred exploration and evaluation expenditure	14	125,475,008	77,837,834
Total Non-Current Assets		**127,837,019**	**81,075,856**
TOTAL ASSETS		**147,914,498**	**153,899,527**
CURRENT LIABILITIES			
Borrowings	15	9,260	26,469
Trade and other payables	16	4,994,842	11,564,708
Total Current Liabilities		**5,004,102**	**11,591,177**
NON-CURRENT LIABILITIES			
Borrowings	15	16,030	25,291
Trade and other payables	16	64,259	34,977
Total Non-Current Liabilities		**80,289**	**60,268**
TOTAL LIABILITIES		**5,084,391**	**11,651,445**
NET ASSETS		**142,830,107**	**142,248,082**
EQUITY			
Contributed equity	17	184,363,890	176,163,635
Reserves	18	10,953,178	9,876,486
Accumulated losses	19	(52,486,961)	(43,792,039)
TOTAL EQUITY		**142,830,107**	**142,248,082**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
AS AT 30 JUNE 2012

Consolidated	Notes	Contributed equity $	Equity reserve $	Revaluation reserve $	Retained earnings $	Total equity $
Balance at 1 July 2010		**88,662,312**	**7,908,249**	**107,887**	**(36,330,043)**	**60,348,405**
Total Comprehensive income for the year						
Loss for the year	19	-	-	-	(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	17	87,501,323	-	-	-	87,501,323
Employee share options – value of employee services	18	-	1,955,718	-	-	1,955,718
Fair value movement of available for sale financial assets		-	-	(95,368)	-	(95,368)
		87,501,323	1,955,718	(95,368)	-	89,361,673
Balance at 30 June 2011	**17,18,19**	**176,163,635**	**9,863,967**	**12,519**	**(43,792,039)**	**142,248,082**
Total Comprehensive income for the year						
Loss for the year	19	-	-	-	(8,694,922)	(8,694,922)
		176,163,635	9,863,967	12,519	(52,486,961)	133,553,160
Transactions with owners in their capacity as owners						
Contributions of equity, net of transaction costs and tax	17	8,200,255	-	-	-	8,200,255
Employee share options – value of employee services	18	-	1,089,211	-	-	1,089,211
Fair value movement of available for sale financial assets		-	-	(12,519)	-	(12,519)
		8,200,255	1,089,211	(12,519)	-	9,276,947
Balance at 30 June 2012	**17,18,19**	**184,363,890**	**10,953,178**	**-**	**(52,486,961)**	**142,830,107**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2012

	Notes	Consolidated 30 June 2012 $	30 June 2011 $
Cash flows from operating activities			
Payments to suppliers and employees		(9,908,322)	(8,772,594)
Interest received		3,131,986	2,252,093
Other revenue		15,194	327,492
Net cash outflow from operating activities	**20**	**(6,761,142)**	**(6,193,009)**
Cash flows from investing activities			
Payments for property, plant and equipment		(71,135)	(2,240,055)
Payments for exploration and evaluation		(53,086,741)	(32,204,155)
Proceeds from sale of available-for-sale financial assets		849,729	-
Proceeds from the sale of recognised evaluation assets		154,424	-
Net cash outflow from investing activities		**(52,153,723)**	**(34,444,210)**
Cash flows from financing activities			
Proceeds from issue of shares		8,200,255	87,501,323
Net cash inflow from financing activities		**8,200,255**	**87,501,323**
Net increase/(decrease) in cash and cash equivalents		**(50,714,610)**	**46,864,104**
Cash at the beginning of the financial year		70,223,566	23,542,883
Effects of exchange rate changes		36,647	(183,421)
Cash and cash equivalents at the end of the financial year	**8**	**19,545,603**	**70,223,566**

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

INDEX TO THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

Note 1: Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements 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.

(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 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 2011.

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 $8,694,922 (2011: $7,461,996) and a net cash out flow from operating activities of $6,761,142 (2011: $6,193,009).

At 30 June 2012, the Group had cash assets of $19,545,603 (2011: $70,223,566) and working capital of $15,073,377 (2011: $61,232,495).

Whilst the Group has sufficient cash and assets to meet its ongoing development and exploration commitments and administration expenditure for the foreseeable future, 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.

Note 1: Summary of significant accounting policies (cont)

(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 2012 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 27.

(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.

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.

Note 1: Summary of significant accounting policies (cont)

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 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 than 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 29.

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 and CEO.

(v) Share-based Payments

Share-based payments compensation benefits are provided to employees via the Arafura Resources Ltd Employee Share Option Plan. Information relating to these schemes is set out in note 29.

Note 1: Summary of significant accounting policies (cont)

The fair value of options granted under the Arafura Resources Ltd Employee Share Option Plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of options granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised of the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

(w) 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.

(x) 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.

(y) 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 2012. They have not been adopted in preparing the financial statements for the year ended 30 June 2012 and are expected to impact the entity in the period of initial application. In all cases the entity intends to apply these standards from application date as indicated in the table below.

Note 1: Summary of significant accounting policies (cont)

STANDARDS LIKELY TO HAVE A FINANCIAL IMPACT

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

Application date:

Periods beginning on or after 1 January 2015.

Nature of change:

Amends the requirements for classification and measurement of financial assets. The available-for-sale and held-to-maturity categories of financial assets in AASB 139 have been eliminated. Under AASB 9, there are three categories of financial assets:

- Amortised cost
- Fair value through profit or loss
- Fair value through other comprehensive income.

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.

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:

Adoption of AASB 9 is only mandatory for the year ending 30 June 2016. The entity has not yet made an assessment of the impact of these amendments.

The entity has/may have financial assets classified as available-for-sale. When AASB 9 is first adopted, the entity will reclassify these into the fair value through profit or loss category. On 1 July 2015, the cumulative fair value changes in the available-for-sale reserve will be reclassified into retained earnings and subsequent fair value changes will be recognised in profit or loss. These changes apply prospectively so comparatives do not need to be restated.

The entity 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 10 (issued August 2011) - Consolidated Financial Statements

Application date:

Annual reporting periods commencing on or after 1 January 2013.

Note 1: Summary of significant accounting policies (cont)

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.

iii) AASB 10 (issued August 2011) - Consolidated Financial Statements

Application date:

Annual reporting periods commencing on or after 1 January 2013.

Nature of change:

Introduces the concept of ‘de facto’ control for entities with less than a 50% ownership interest in an entity, but which have a large shareholding compared to other shareholders.

This could result in more instances of control and more entities being consolidated.

Impact on initial application:

No impact.

iv) AASB 10 (issued August 2011) - Consolidated Financial Statements

Application date:

Annual reporting periods commencing on or after 1 January 2013.

Nature of change:

Potential voting rights are only considered when determining if there is control when they are substantive (holder has practical ability to exercise) and the rights are currently exercisable. This may result in possibly fewer instances of control.

Impact on initial application:

No impact.

Note 1: Summary of significant accounting policies (cont)

v) AASB 11 (issued August 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).

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 has not entered into any joint arrangements.

vi) AASB 11 (issued August 2011) - Joint Arrangements

Application date:

Annual reporting periods commencing on or after 1 January 2013.

Nature of change:

However, where terms of the contractual arrangement, or other facts and circumstances indicate that the parties have rights to assets and obligations for liabilities of the arrangement, rather than rights to net assets, the arrangement will be treated as a joint operation and joint venture parties will account for the assets, liabilities, revenues and expenses in accordance with the contract.

Impact on initial application:

No impact.

vii) AASB 13 (issued September 2011) - Fair Value Measurement

Application date:

Annual reporting periods commencing on or after 1 January 2013.

Note 1: Summary of significant accounting policies (cont)

Nature of change:

Currently, fair value measurement requirements are included in several Accounting Standards. AASB 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:

The entity has yet to conduct a detailed analysis of the differences between the current fair valuation methodologies used and those required by AASB 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.

viii) AASB 13 (issued September 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 for the year ended 30 June 2014, additional disclosures will be required about fair values.

ix) AASB 2011-9 (issued September 2011) - Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income

Application date:

Annual periods commencing on or after 1 July 2012.

Nature of change:

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

Various name changes of statements in AASB 101 as follows:

- 1 statement of comprehensive income – to be referred to as 'statement of profit or loss

Note 1: Summary of significant accounting policies (cont)

and other comprehensive income'

- 2 statements – to be referred to as 'statement of profit or loss' and 'statement of comprehensive income'.

OCI items must be Grouped together into two sections: those that could subsequently be reclassified.

Impact on initial application:

When this standard is first adopted for the year ended 30 June 2013, there will be no impact on amounts recognised for transactions and balances for 30 June 2013 (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).

x) AASB 119 (reissued September 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) wholly 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 wholly 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 AASB 119 require that such liabilities be calculated on the basis of when the leave is expected to be taken, i.e. expected settlement.

Note 1: Summary of significant accounting policies (cont)

When this standard is first adopted for 30 June 2014 year end, annual leave liabilities will be recalculated on 1 July 2012 as long-term benefits because they are not expected to be settled wholly within 12 months after the end of the reporting period. This will result in a reduction of the annual leave liabilities recognised on 1 July 2012, and a corresponding increase in retained earnings at that date.

xi) Interpretation 20 (issued November 2011) - Stripping Costs in the Production Phase of a Surface Mine

Application date:

Annual periods commencing on or after 1 January 2013.

Nature of change:

Clarifies that costs of removing mine waste materials (overburden) to gain access to mineral ore deposits during the production phase of a mine must be capitalised as inventories under AASB 102 Inventories if the benefits from stripping activity is realised in the form of inventory produced. Otherwise, if stripping activity provides improved access to the ore, stripping costs must be capitalised as a non-current, stripping activity asset if certain recognition criteria are met (as an addition to, or enhancement of, an existing asset).

Impact on initial application:

The entity does not operate a surface mine. There will therefore be no impact on the financial statements when this interpretation is first adopted.

STANDARDS LIKELY TO HAVE A DISCLOSURE IMPACT ONLY

xii) AASB 12 (issued August 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 AASB 127 Consolidated and Separate Financial Statements, AASB 128 Investments in Associates and AASB 131 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.

Note 1: Summary of significant accounting policies (cont)

xiii) IFRS (issued December 2011) - Mandatory Effective Date of IFRS 9 and Transition Disclosures

Application date:

Annual reporting periods commencing on or after 1 January 2015.

Nature of change:

Entities are no longer required to restate comparatives on first time adoption. Instead, additional disclosures on the effects of transition are required.

Impact on initial application:

As comparatives are no longer required to be restated, there will be no impact on amounts recognised in the financial statements. However, additional disclosures will be required on transition, including the quantitative effects of reclassifying financial assets on transition.

xiv) IAS 1 - Presentation of Financial Statements

Application date:

Periods commencing on or after 1 January 2013.

Nature of change:

Minimum comparative information;

Clarifies the requirements for comparative information as follows:

- Only one year's comparative information (i.e. for the preceding period)
- Two of each financial statement
- Narrative information provided in preceding period's financial statements that continues to be relevant in current period.

Comparative information where there has been a change in accounting policy, retrospective restatement or reclassification;

Clarifies the requirements for comparative information as follows:

- Additional statement of financial position required at beginning of preceding period (rather than at beginning of earliest comparative period). This means that a maximum of three statements of financial position are required
- Related notes for third statement of financial position only need to include those relating to the change in accounting policy, retrospective restatement or reclassification.

Impact on initial application:

No impact.

Note 1: Summary of significant accounting policies (cont)

xv) IAS 16 - Property, Plant and Equipment

Application date:

Periods commencing on or after 1 January 2013.

Nature of change:

Clarifies that items such as spare parts, stand-by or servicing equipment are required to be classified as property, plant and equipment (PPE) when they meet the definition of PPE. Otherwise they are required to be classified as inventory.

Impact on initial application:

There will be no impact when this amendment is first adopted because the entity does not have any spare parts, stand-by equipment or servicing equipment.

xvi) IAS 32 - Financial Instruments: Presentation

Application date:

Periods commencing on or after 1 January 2013.

Nature of change:

Clarifies that the following are required to be accounted for under IAS 12 Income Taxes:

- Income tax relating to distributions to holders of equity instruments
- Income tax relating to transaction costs of an equity instrument.

This means that depending on the circumstances, income tax might be recognised in either profit or loss or equity.

Impact on initial application:

There will be no impact when this amendment is first adopted because the entity has always accounted for income taxes relating to distributions to holders of equity instruments and transaction costs of issuing an equity instrument consistent with this clarification.

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.

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

	Consolidated	
	2012	2011
	$	$
Financial assets		
Cash and cash equivalents	**19,545,603**	70,223,566
Trade receivables and deposits	**2,531,876**	3,851,072
Available-for-sale financial assets	**-**	739,102
	22,077,479	**74,813,740**
Financial liabilities		
Trade creditors	**2,161,917**	3,484,357
Trade and other accruals	**2,477,510**	7,332,262
PAYG and payroll tax liabilities	**121,209**	177,681
Deferred Income	**-**	150,000
Current and Non-current borrowings	**25,291**	51,760
	4,785,927	**11,196,060**

Note 2: Financial risk management (cont)

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from contract exposure in relation to the provisions of goods and services by outside organisations. The exposure is minimal but 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.

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

	Consolidated	
	2012	2011
	USD	USD
Cash at bank	**731,873**	731,873
Trade Payables	**22,745**	87,695

(ii) Group sensitivity

Based on the financial instruments held at 30 June 2012, 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 $87,451 or an increased loss in reported Group post tax losses of $65,697.

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

(iii) Price risk

The Group was 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. At 30 June 2012, Arafura disposed of such investments.

Note 2: Financial risk management (cont)

The following table summarises the impact of increases/decreases in the listed market prices from the listed closing price on 30 June 2012 and 30 June 2011 respectively in the equities held by the Group with all other variables held constant. The equities are all publicly traded on the ASX.

Listed, non-ASX 200	Impact on post-tax profit		Impact on equity	
	2012 $	2011 $	**2012 $**	2011 $
Increase				
10%	**-**	-	**-**	73,910
20%	**-**	-	**-**	147,820
50%	**-**	-	**-**	369,551
Decrease				
-10%	**-**	-	**-**	(73,910)
-20%	**-**	-	**-**	(147,820)
-50%	**-**	-	**-**	(369,551)

(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.

(v) Group and parent sensitivity

At 30 June 2012, 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 $136,811 lower/($325,008 higher) (2011 – change of 70/100 bps: $188,197 lower/($1,185,570 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	
	2012 $	2011 $
Cash at bank and short-term bank deposits		
Standard and Poor's rating AA	**19,545,603**	70,223,566
Total	**19,545,603**	70,223,566

Note 2: Financial risk management (cont)

(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 has no financing arrangements as at the reporting date.

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 – At 30 June 2012	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	4,760,633	-	-	-	-	4,760,633	4,760,633
Fixed rate	4,459	4,800	16,030	-	-	25,289	(20,613)
Total non-derivatives	**4,765,092**	**4,800**	**16,030**	**-**	**-**	**4,785,922**	**4,740,020**

Group - 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**

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's assets and liabilities measured and recognised at fair value at 30 June 2012.

Group – at 30 June 2012	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Available-for-sale financial assets				
Equity securities	-	-	-	-
Total assets	**-**	**-**	**-**	**-**

Group and 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**

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 29.

(iii) Income taxes
The Research and Development (R&D) Tax Incentive is administered jointly by AusIndustry (on behalf of Innovation Australia) and the Australian Taxation Office (ATO).

Under the Industry Research and Development Act 1986, for the income year 2011/12 Arafura Resources Limited has received Notice of Registration for the R&D Tax Incentive.

The R&D Tax Incentive is a self-assessment program and as at the date of the signing of this report Arafura has received no notification from AusIndustry and/or the ATO rejecting the registered R&D activities as ineligible R&D or the associated eligible R&D expenditures claimed.

The Group has prepared the claim for expenditure on the eligible registered R&D activities and has included this amount in the Group's ITR lodged in early September 2012 with the ATO. The anticipated R&D rebate amount of this is disclosed under Note 7: *Income Tax*.

Note 3: Critical accounting estimates and judgments (cont)

(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 evaluation and development segment
(ii) Exploration segment
(iii) Corporate segment

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.

Note 4: Segment information (cont)

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

Management has determined, based on reports reviewed by the Managing Director and 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 and CEO for the reportable segments for the year ended 30 June 2012 is as follows:

CONSOLIDATED	Project evaluation and development	Exploration	Corporate	Total
2012				
Segment revenue	153,746	-	2,247,870	2,401,616
Segment expenditure	(46,400,024)	(773,860)	(9,814,385)	(56,988,269)
Inter-segment expenditure	-	-	-	-
	(46,246,278)	(773,860)	(7,566,515)	(54,586,653)
Adjusted EBITDA	**(158,567)** [(1)]	**-**	**(7,566,515)**	**(7,725,082)**
Capitalised expenditure	(46,087,711)	(773,860)	-	(46,861,571)
	(46,246,278)	(773,860)	(7,566,515)	(54,586,653)
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)
Total segment assets				
2012	113,762,578	13,712,430	20,439,490	147,914,498
2011	67,696,574	12,181,617	74,021,336	153,899,527
Total segment liabilities				
2012	3,280,615	680,226	1,123,550	5,084,391
2011	10,171,455	39,832	1,440,158	11,651,445

(1) Pilot plant

Note 4: Segment information (cont)

Reconciliation of adjusted EBITDA to operating profit before income tax:

	Consolidated 2012	Consolidated 2011
Adjusted EBITDA	**(7,725,082)**	**(5,080,943)**
Finance Costs	(2,958)	(5,556)
Depreciation and amortisation	(181,951)	(230,366)
Share option expense	(1,089,211)	(1,955,718)
Gain/(Loss) on disposal of assets	182,153	-
Income received from Demonstration Plant reimbursement	153,746	
Impairment on assets	(68,266)	(5,991)
Realised exchange rate gain	-	15,754
Unrealised exchange rate (loss)/gain	36,647	(199,176)
Loss before income tax	**(8,694,922)**	**(7,461,996)**

Note 5: Revenue

	Consolidated 2012 $	Consolidated 2011 $
Revenue from continuing operations		
Other revenue		
Interest received	**2,097,194**	3,346,530
	2,097,194	3,346,530
Other Income		
Foreign exchange gain/(loss)	**36,647**	(183,422)
Profit/(loss) Available for Sale Investments	**182,153**	-
Other	**304,423**	177,492
	523,223	(5,930)
Total Revenue	**2,620,417**	3,340,600

Note 6: Expenses

	Consolidated	
	2012	2011
	$	$
(a) Expenses		
Depreciation		
Depreciation – plant and equipment	**148,757**	189,785
Depreciation – motor vehicles	**15,605**	22,993
Depreciation – leasehold improvements	**17,589**	17,588
Total depreciation	**181,951**	230,366
Finance costs		
Interest expense	**2,958**	5,556
Total finance costs	**2,958**	5,556
Other expenses		
Accounting and other professional fees	**147,574**	74,297
Audit fees	**90,779**	65,514
Consultants fees	**1,023,485**	794,882
Employee benefits expense	**5,396,580**	5,072,272
Insurance	**98,392**	88,060
Legal fees	**587,155**	158,336
Promotion expenses	**15,158**	30,756
Share-based employee benefits	**1,089,211**	1,955,718
Share registry and stock listing fees	**224,453**	205,518
Other expenses	**2,230,810**	2,042,882
Total other expenses	**10,903,597**	10,488,235
Development expenses		
Pilot plant	**158,567**	71,307
Other projects	**-**	1,141
Total development expenses	**158,567**	72,448
Impairment of assets		
Capitalised exploration expenditure	**9,259**	5,991
Available for sale financial assets	**59,007**	-
Total impairment of assets	**68,266**	5,991

Note 7: Income tax

	Consolidated	
	2012 $	2011 $
(a) Income tax expense		
Current tax	-	-
(b) Operating loss before income tax expense	**(8,694,922)**	(7,461,996)
Tax at the Australian tax rate of 30%	**(2,608,477)**	(2,238,599)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
• Entertainment	**2,715**	2,567
• Share-based payments	**326,763**	586,715
• Eligible R&D Expenditure claimed under R&D Incentive	**15,025,164**	-
• Donations	**2,669**	-
• Deferred tax assets relating to tax losses and temporary differences not recognised	**3,199,473**	12,162,950
Temporary differences not recognised	**(15,948,307)**	(10,513,633)
Income tax benefit	**-**	-
(c) Deferred tax assets and liabilities not recognised relate to the following:		
Deferred tax assets		
Tax losses	**41,661,884**	33,329,420
Other temporary differences	**1,947,169**	3,851,938
Deferred tax liabilities		
Other temporary differences	**(37,642,502)**	(23,586,046)
Net deferred tax assets	**5,966,551**	13,595,312
R&D Tax Incentive Rebate	**22,537,747**	-

The franking account balance at year end was $nil (2011: $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.

The Company has lodged its current year rebate claim for Research and Development (R&D) and anticipates an amount of $22,537,747 to be paid to the Company in the current year. This amount has not been recognised in the financial statements at 30 June 2012.

Note 8: Current assets – Cash and cash equivalents

	Consolidated	
	2012 **$**	2011 $
Cash at bank and in hand	**6,470,603**	14,148,566
Bank deposits	**13,075,000**	56,075,000
	19,545,603	70,223,566

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

	Consolidated	
Reconciliation to cash at the end of the year		
Balances as above	**19,545,603**	70,223,566
Balances as per statement of cash flows	**19,545,603**	70,223,566

(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	
	2012 **$**	2011 $
Trade debtors	-	15,194
Sundry debtors	**58,767**	1,094,437
Security bonds	**161,053**	42,089
Goods and services tax paid	**284,410**	664,942
Other receivables	**27,646**	34,410
	531,876	1,851,072

(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	
	2012	2011
	$	$
Assets held for sale		
Carrying amount of tenements[(1)]	**-**	749,033
Total assets held for sale	**-**	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 in FY 2011. The consideration for the sale of the project was a combination of cash and scrip. Under the terms of the agreement, Arafura would have received 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 were expected to be satisfied by approximately the 31st of December 2011. Due to global market instability, this transaction is now unlikely to proceed and as a result the cost base of these assets have been retransferred back to exploration (refer note 14).

Note 11: Non-current assets – Receivables and deposits

	Consolidated		Parent Entity	
	2012	2011	**2012**	2011
	$	$	**$**	$
Loans to related parties				
Arafura Rare Earths Pty Ltd	**-**	-	**22,987,403**	7,838,714
Arafura Land Holdings Pty Ltd	**-**	-	**2,040,359**	2,040,359
	-	-	**25,027,762**	9,879,073
Other				
Prepayments [(1)]	**2,000,000**	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 12: Non-current assets – Available-for-sale financial assets

	Consolidated	
	2012	2011
	$	$
Listed securities[a]		
Opening balance	**739,102**	834,470
Additions	-	-
Disposals (sale and redemption)	**(667,576)**	-
Impairment	**(59,007)**	-
Valuation movement to reserve	**(12,519)**	(95,368)
Closing balance	**-**	739,102

	Consolidated	
	2012	2011
	FPO	FPO
Listed securities[a]		
Opening balance	**23,842,000**	23,842,000
On market purchase	-	-
On market disposal	**(23,842,000)**	-
Closing balance	**-**	23,842,000

(a) Listed securities

Shares held in listed securities were fully paid ordinary shares (FPO) with voting and dividend rights. Arafura owned 23,842,000 ordinary shares in NuPower Resources Limited at fair value on 30 June 2011 however disposed of these early in calendar year 2012.

Note 13: 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 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	-	-	-	-	-	-
Depreciation charge	(7,312)	(170,549)	(11,924)	(22,993)	(17,588)	(230,366)
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
Year ended 30 June 2012						
Opening book amount	56,220	215,793	16,006	36,220	174,681	498,920
Additions	8,355	12,655	24,032	-	-	45,042
Disposals	-	-	-	-	-	-
Depreciation charge	(9,267)	(128,045)	(11,445)	(15,605)	(17,589)	(181,951)
Closing book amount	55,308	100,403	28,593	20,615	157,092	362,011
At 30 June 2012						
Cost or fair value	94,057	774,117	94,501	203,308	216,245	1,382,228
Accumulated depreciation	(38,749)	(673,714)	(65,908)	(182,693)	(59,153)	(1,020,217)
Net book amount	55,308	100,403	28,593	20,615	157,092	362,011

Note 14: Non-current assets – Deferred exploration and evaluation expenditure

	Consolidated	
	2012	2011
	$	$
Exploration, evaluation and development costs carried forward		
Balance at beginning of year	**77,837,834**	38,681,975
Capitalised exploration expenditure	**773,860**	521,294
Capitalised evaluation expenditure [(a)]	**46,115,621**	39,389,589
Impairment of exploration expenditure	**(9,259)**	(5,991)
Transfer (to)/from assets held for sale	**756,952**	(749,033)
Balance at end of year	**125,475,008**	77,837,834

(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 Nolan's Project.

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

Note 15: Current and non-current liabilities – Borrowings

	Consolidated	
	2012	2011
	$	$
Current interest bearing liability		
• Finance leases due within 1 year	**10,795**	29,428
Non-current interest bearing liability		
• Finance leases due later than 1 year but within 5 years	**16,295**	27,090
Minimum lease payments	**27,090**	56,518
Future finance charges recognised as a liability	**(1,800)**	(4,758)
Total lease liability	**25,290**	51,760
Representing interest bearing liabilities		
Current		
Interest bearing liabilities	**9,260**	26,469
Non-current		
Interest bearing liabilities	**16,030**	25,291
	25,290	51,760

(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 16: Current and non-current liabilities – Trade and other payables

	Consolidated 2012 $	Consolidated 2011 $
Current		
Trade creditors [a]	**2,161,917**	3,484,357
Trade and other accruals	**2,477,510**	7,332,262
PAYG and payroll tax liabilities	**121,209**	177,681
Deferred income [b]	**-**	150,000
Provision for annual leave [c]	**234,206**	420,408
	4,994,842	11,564,708
Non-current		
Provision for long service leave	**64,259**	34,977
	64,259	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. At 30 June 2012, the entire amount has been released through the profit and loss in 'other income' as the transaction is considered complete.

(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 2012 $	Consolidated 2011 $
Leave obligations expected to be settled after 12 months	**105,393**	189,183

Note 17: Equity – Contributed equity

	2012 Shares	2011 Shares	2012 $	2011 $
(a) Share capital				
Ordinary shares				
• Fully paid	**396,004,144**	367,980,342	**184,363,890**	176,163,635

(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-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**
22-Mar-12	Share Purchase Plan (SPP)	28,023,802	$0.29	8,238,998
01 Jul 11 – 30 Jun 12	SPP Transaction Costs			(38,743)
30-Jun-12	**Balance**	**396,004,144**		**184,363,890**

Note 17: Equity – Contributed equity (cont)

(i) Placements made to existing Arafura shareholders
On the 22nd of March 2012, Arafura issued 28,023,802 fully paid ordinary shares at $0.29 to existing shareholders via a Share Purchase Plan. Funds from the capital raising were/are being used to complete the feasibility study and progress the Nolan's Project toward project finance.

(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.

Consistent 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 current borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial performance plus net debt.

		Consolidated	
		2012	2011
	Notes	**$**	$
Total payables	16	**4,994,842**	11,564,708
Borrowings	15	**9,260**	26,469
Less: cash and cash equivalents	8	**(19,545,603)**	(70,223,566)
Net debt		**(14,541,501)**	(58,632,389)
Total equity		**142,830,107**	142,248,082
Total capital		**128,304,636**	83,640,984
Gearing Ratio		(11%)	(70%)

The decrease in the 2012 gearing ratio has been primarily driven by the decreased cash position. As majority of Arafura's expenditure is capitalised, total capital has increased, reducing our gearing percentage in 2012.

Note 18: Equity – Reserves

	Consolidated	
	2012	2011
	$	$
Reserves		
Share-based payments reserve	**10,953,178**	9,863,967
Available-for-sale financial assets reserve	-	12,519
	10,953,178	9,876,486
Movements		
Share-based payments reserve		
Balance 1 July 2011	**9,863,967**	7,908,249
Option expense	**1,089,211**	1,955,718
Balance 30 June 2012	**10,953,178**	9,863,967
Available-for-sale financial assets reserve		
Balance 1 July 2011	**12,519**	107,887
Revaluations	**(12,519)**	(95,368)
Transfer to profit or loss	-	-
Balance 30 June 2012	**-**	12,519

(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 19: Equity – Accumulated losses

	Consolidated	
	2012 **$**	2011 $
Balance 1 July 2011	**(43,792,039)**	(36,330,043)
Net loss for the year	**(8,694,922)**	(7,461,996)
Balance 30 June 2012	**(52,486,961)**	(43,792,039)

Note 20: Statement of cash flows reconciliation

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

	Consolidated	
	2012 **$**	2011 $
Net loss	**(8,694,922)**	(7,461,996)
Depreciation and amortisation	**181,950**	230,366
Impairments on assets	**68,266**	5,991
Inter company salary re-charge	**(79,118)**	(389,810)
Deferred Income	-	150,000
Other income	**(304,424)**	-
Gain on disposal and/or sale of non-current assets	**(182,153)**	-
Unrealised FX gain	**(36,647)**	-
Share-based employee benefits	**1,089,211**	1,955,718
Payments for government bonds	**(119,962)**	-
Pilot Plant costs expensed	**158,567**	-
Decrease in trade and other receivables	**1,049,989**	(1,094,437)
Increase in trade and other payables	**265,022**	337,502
Decrease in other provisions	**(156,921)**	73,657
Net cash (outflow) from operating activities	**(6,761,142)**	(6,193,009)

Note 21: Key management personnel disclosures

(a) Directors

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

(i) Chairman – Non-Executive
I Kowalick(1)

(ii) Executive Director
S Ward(5)

(iii) *Non-Executive Directors*

A Losada-Calderon
C Tonkin(2)
S Lu(3)
I Muir(4)
T Jackson(5)
L Reynolds(5)
L Jones(5)
I Laurance(5)

(1) Mr Kowalick was elected Deputy Chairman on the 27th of July 2011 until the 25th November 2011. Mr Kowalick was re-appointed as Non-Executive Director on the 3rd of December 2011 and appointed Non-Executive Chairman on the 1st of February 2012.

(2) Mr Tonkin was appointed from Non-Executive Director to Non-Executive Chairman on the 3rd of December 2011. On the 1st of February 2012, Mr Tonkin stepped down as Chairman, being replaced by Mr Kowalick, and resumed his position as Non-Executive Director. On the 21st of March 2012, Mr Tonkin was appointed Chief Executive Officer.

(3) Ms Lu was appointed from Executive to Non-Executive Director on the 25th of November 2011.

(4) Mr Muir retired in his capacity as Non-Executive Director at the AGM held on the 25th of November 2011.

(5) On the 16th of February 2012, Mr Jackson, Mr Laurance, Mr Jones and Ms Reynolds elected to retire from their capacity as Non-Executive Director. Mr Ward also stepped down in his capacity as Managing Director and Chief Executive Officer.

Note 21: Key management personnel disclosures (cont)

(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*
- G Lockyer – *Chief Financial Officer and Company Secretary*
- J Ganser – *General Manager of Projects*
- N Graham – *General Manager of Operations and Technology*
- S Mackowski* – *General Manager of Technology*

*S Mackowski resigned from Arafura on the 1st of September 2011.

(c) Key management personnel compensation

	Consolidated	
	2012 **$**	2011 $
Short-term employee benefits	**2,952,775**	3,469,433
Post-employment benefits	**322,128**	269,571
Long-term benefits	**36,815**	19,356
Termination benefits	**444,700**	-
Share-based payments	**1,015,651**	1,626,938
	4,772,069	5,385,298

Detailed remuneration disclosures are provided in sections A-E of the remuneration report on pages 33 to 46.

(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.

Note 21: Key management personnel disclosures (cont)

2012	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)	-	-	-
S Ward	1,500,000	3,500,000	-	(5,000,000)	-	-	-
I J Kowalick	1,500,000	-	-	(1,500,000)	-	-	-
T R Jackson	1,500,000	-	-	(1,500,000)	-	-	-
I G Muir	-	-	-	-	-	-	-
C Tonkin	-	750,000	-	-	750,000	-	750,000
S Lu	500,000	1,000,000	-	-	1,500,000	500,000	1,000,000
A Losada-Calderon	1,100,000	400,000	-	-	1,500,000	1,100,000	400,000
L Jones	-	750,000	-	(750,000)	-	-	-
L Reynolds	-	750,000	-	(750,000)	-	-	-
Key management personnel of the Group							
S Mackowski	350,000	-	-	(350,000)	-	-	-
R Brescianini	850,000	200,000	-	-	1,050,000	850,000	200,000
G J Lockyer	1,500,000	200,000	-	-	1,700,000	1,500,000	200,000
N Graham	750,000	500,000	-	-	1,250,000	750,000	500,000
J Ganser	750,000	500,000	-	-	1,250,000	750,000	500,000
Total	12,300,000	8,550,000	-	(11,850,000)	9,000,000	5,450,000	3,550,000

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 Laurance	2,000,000	-	-	-	2,000,000	2,000,000	-
S Ward	1,500,000	-	-	-	1,500,000	1,500,000	-
I Kowalick	1,500,000	-	-	-	1,500,000	1,500,000	-
T Jackson	1,500,000	-	-	-	1,500,000	1,500,000	-
I Muir	-	-	-	-	-	-	-
C Tonkin	-	-	-	-	-	-	-
S Lu	500,000	-	-	-	500,000	500,000	-
A Losada-Calderon	-	1,100,000	-	-	1,100,000	-	1,100,000
Key management personnel of the Group							
S 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)	13,000,000	9,200,000	3,800,000

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

Note 21: Key management personnel disclosures (cont)

(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:

2012	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	560,000	-	17,007	577,007
T R Jackson	5,256,535	-	-	5,256,535*
S Ward	145,000	-	-	145,000*
I G Muir	2,997,001	-	-	2,997,001*
C Tonkin	-	-	-	-
S Lu	-	-	-	-
A Losada-Calderon	-	-	-	-
Key management personnel of the Group				
S J Mackowski	-	-	-	-
R Brescianini	51,330	-	34,014	85,054
G J Lockyer	300,000	-	34,014	334,014
N Graham	13,513	-	-	13,513
J Ganser	-	-	-	-
Total	9,443,379	-	85,035	9,528,124

*Represents the balance of shares held at the time of resignation.

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 Laurance	120,000	-	-	120,000
I Kowalick	560,000	-	-	560,000
T Jackson	5,256,535	-	-	5,256,535
S Ward	145,000	-	-	145,000
I Muir	3,167,001	-	(170,000)	2,997,001
C Tonkin	-	-	-	-
S Lu	-	-	-	-
A Losada-Calderon	-	-	-	-
Key management personnel of the Group				
S Mackowski	246,500	1,000,000	(1,246,500)	-
R Brescianini	51,330	500,000	(500,000)	51,330
B Fowler	-	-	-	-
G Lockyer	500,000	-	(200,000)	300,000
N Graham	-	-	13,513	13,513
J Ganser	-	-	-	-
Total	10,036,366	1,500,000	(2,102,987)	9,443,379

Note 21: Key management personnel disclosures (cont)

(iv) Loans to key management personnel
In the 2011 and 2012 financial year, there were no loans to individuals at any time.

(v) Other transactions with key management personnel
In the 2011 and 2012 financial year, there were no transactions with individuals at any time.

Note 22: Remuneration of auditors

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

	Consolidated	
	2012 $	2011 $
1. Audit services		
BDO Audit (WA) Pty Ltd		
Audit and review of financial reports	**90,779**	65,514
Total remuneration for audit services	**90,779**	65,514

No non-audit services were provided to the Company during the 2011 and 2012 financial years.

Note 23: Commitments and contingencies

(a) Mining tenement commitments

	Consolidated	
	2012	2011
	$	$
Within one year	**1,445,995**	6,648,938
Later than one year but not later than five years	**5,144,642**	22,813,825
Later than five years	**-**	-
	6,590,637	29,462,763

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.

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	
	2012	2011
	$	$
Within one year	**10,795**	29,428
Later than one year but not later than five years	**16,295**	27,090
Later than five years	**-**	-
	27,090	56,518
Less: future finance charges	**(1,800)**	(4,758)
Recognised as liability	**25,290**	51,760
Represented by:		
Current (note 15)	**9,260**	26,469
Non-current (note 15)	**16,030**	25,291
	25,290	51,760

Note 23: Commitments and contingencies (cont)

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	
Property Plant and Equipment	**2012 $**	2011 $
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

(d) Lease commitments:

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	Consolidated	
	2012 $	2011 $
Within one year	**375,803**	430,524
Later than one year but not later than five years	**375,803**	796,390
Later than five years	**-**	-
	751,605	1,226,914

(e) Contingencies

Contingent liabilities at balance date, not included in this financial report, were as follows:

(1) As at reporting date there is a present obligation for the Group to relocate residual waste material currently stored at the test work site facilities in Western Australia and New South Wales. At the date of signing of this report the future cost of this obligation is dependent on the relocation site for the waste material and this has yet to be determined. The cost of the relocation and storage of this residual waste material at either potential site is not considered to be material and has not been recognised in this financial report.

Note 23: Commitments and contingencies (cont)

(2) 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 24: Earnings per share

	Consolidated	
	2012 Cents	2011 Cents
(a) Basic earnings per share		
Basic loss per share (cents per share)	**(2.3)**	(2.2)
(b) Diluted earnings per share		
Diluted loss per share (cents per share)	**(2.3)**	(2.2)

	Consolidated	
	2012 $	2011 $
Net Earnings/(loss)	**(8,694,922)**	(7,461,996)
Earnings/(loss) used to calculate basic earnings per share	**(8,694,922)**	(7,461,996)
Earnings/(loss) used to calculate diluted earnings per share	**(8,694,922)**	(7,461,996)

	Consolidated	
	2012 Number of shares	2011 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	**375,713,686**	337,489,164
Weighted average number of ordinary shares used in calculating diluted earnings per share	**375,713,686**	337,489,164
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	**-**	-

Note 24: Earnings per share (cont)

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 25: 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 2012 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 2012 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 26.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 21.

(d) Transactions with related parties

Other than transactions held between subsidiaries of the Group, there were no other transactions with related parties of the Group.

(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

Other than loans held between subsidiaries of the Group, there were no other loans entered into or agreed upon with related parties of the Group.

Note 25: Related party transactions (cont)

(g) Terms and conditions

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

Note 26: 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	
			2012 %	2011 %
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	Australia	Ordinary	**100**	100

Note 27: 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 2012, including the rights held/relinquished can be found on the last page of the financial report.

Note 28: Events occurring after the statement of financial position date

No other matter or circumstance has arisen since 30 June 2012 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 29: 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:

Note 29: 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 – 2012								
1-Jul-08	31-Dec-12	$1.19	1,410,000	-	-	(310,000)	1,100,000	1,100,000
2-Sep-08	31-Dec-12	$1.19	6,500,000	-	-	(6,500,000)	-	-
30-Jun-09	31-Dec-13	$0.85	3,370,000	-	-	(670,000)	2,700,000	2,700,000
21-Jul-10	20-Jul-13	$0.75	1,200,000	-	-	(350,000)	850,000	850,000
1-Sep-10	31-Aug-13	$0.98	750,000	-	-	-	750,000	750,000
13-Sep-10	14-Sep-13	$1.08	750,000	-	-	-	750,000	750,000
25-Nov-10	26-Nov-13	$1.54	1,100,000	-	-	-	1,100,000	1,100,000
15-Jul-11	16-Jul-14	$0.96	-	1,400,000	-	-	1,400,000	-
15-Nov-11	31-Dec-14	$0.81	-	900,000	-	(200,000)	700,000	-
25-Nov-11	24-Nov-14	$0.70	-	7,150,000	-	(5,000,000)	2,150,000	-
Total			15,080,000	9,450,000	-	(13,030,000)	11,500,000	7,250,000
Weighted average exercise price			$1.25	$0.75	$0.00	$0.97	$0.95	$1.03

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 – 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

The weighted average remaining contractual life of the share options outstanding at the end of the period was 1.62 years (2011: 1.91 years).

Note 29: Share-based payments (cont)

Fair value of options granted

All options issued in the 2012 financial year were granted to Key Management Personnel with the exception of 900,000 options being issued to middle management personnel exercisable at $0.81. Refer to the remuneration report beginning page 33 to determine the fair value expense of options granted during the period ending 30 June 2012.

Arafura uses the "Binomial Model" to value its options. The model inputs for options granted during the year ended 30 June 2012 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
$0.96	15-Jul-11	16-Jul-14	$0.76	74.70%	n/a	4.63%
$0.81	15-Nov-11	13-Dec-14	$0.60	69.40%	n/a	3.79%
$0.70	25-Nov-11	24-Nov-14	$0.47	76.00%	n/a	3.68%

(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	
	2012 $	2011 $
Options issued under the Executive and employee option plan	**1,089,211**	1,955,718
	1,089,211	1,955,718

Note 30: Parent entity financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	Parent	
Arafura Resources Ltd (Parent)	**2012 $**	2011 $
Statement of Financial Position		
Current Assets	**20,077,439**	72,823,631
Total Assets	**147,640,207**	81,075,896
Current Liabilities	**4,729,811**	11,591,177
Total Liabilities	**4,810,100**	11,651,445
Shareholders Equity		
Issued Capital	**184,363,890**	176,163,635
Reserves		
Option Reserve	**10,953,178**	9,863,967
Available-for-sale financial assets	**-**	12,519
Retained Earnings	**(52,486,961)**	(43,792,039)
Loss for the year	**(8,694,922)**	(7,461,996)
Total comprehensive income	**(8,707,441)**	(7,557,364)

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

All commitments and contingencies of the Group are held in the name of the Parent entity. Refer note 23 for full disclosure of these items.

DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2012

DECLARATION BY DIRECTORS

The Directors of the Company declare that:

(1) The financial statements comprising the Statement of Comprehensive Income, Statement of Financial Position, 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 2012 and of the performance for the year ended on that date for the Company and the consolidated entity.

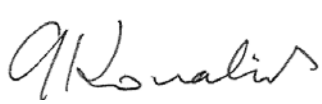
(2) In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

(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 33 to 46 of the Directors' report (as part of the audited Remuneration Report), for the year ended 30 June 2012 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.



I J Kowalick
Chairman
25 September 2012

Tel: +8 6382 4600
Fax: +8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

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 2012, 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, 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 company'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 Company'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 2012 and of their performance for the year ended on that date; and

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

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

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2012. 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.

Opinion

In our opinion, the Remuneration Report of Arafura Resources Limited for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO
Glyn O'Brien

Glyn O'Brien
Director

Perth, Western Australia
Dated this 25th day of September 2012

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

1. Statement of issued capital at 31 August 2012:

(a) Distribution of fully paid ordinary shareholders

Size of holding	Number of shareholders	Number of shares
1 – 1000	1,238	695,594
1,001 – 5,000	2,820	8,618,590
5,001 – 10,000	1,699	13,907,335
10,001 – 100,000	2,834	89,391,423
100,001 – and over	306	283,391,202
	8,897	396,004,144

(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 31 August 2012, there existed 577 shareholders who held less than a marketable parcel of shares.

2. Substantial shareholders at 31 August 2012 as per their notices:

Name	Ordinary shares %
JP Morgan Nom Aust Ltd	24.86%

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 31 August 2012, the twenty largest shareholders held 222,837,576 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	98,458,671	24.86%
2	ECE Nolans Inv Co PL	64,433,333	16.27%
3	National Nom Ltd	17,680,456	4.46%
4	HSBC Custody Nom Aust Ltd	10,278,454	2.60%
5	Citicorp Nom PL	9,301,298	2.35%
6	J P Morgan Nom Aust Ltd	7,333,017	1.85%
7	Muir Irvin Graham	2,250,535	.57%
8	Leach Julian Paul	1,589,568	.40%
9	Merrill Lynch Aust Nom PL	1,439,974	.36%
10	Abn Amro Clearing Sydney	1,263,040	.32%
11	Gu Jiesheng	1,144,000	.29%
12	Kamdia PL	1,000,000	.25%
13	Moltoni Peter + Susan P	985,023	.25%
14	HSBC Custody Nom Aust Ltd	967,064	.24%
15	Itta Dvlmts PL	940,000	.24%
16	BNP Paribas Noms PL	880,959	.22%
17	Best Friend Entps PL	800,000	.20%
18	Gule Inv PL	701,020	.18%
19	Aliana PL	700,000	.18%
20	HSBC Custody Nom Aust Lim	691,164	.17%
		222,837,576	

The Group holds the following interests as indicated below:

Project	Title	Holder	Joint venture partners
Mt Porter	ELR 116, ML 23839, EL 23237	**Arafura Resources Ltd**	**-**
Frances Creek	MA 389[2], EL 10137[2], EL 22270[2]	**Territory Resources Ltd / Frances Creek Pty Ltd**	**-**
Kurinelli	MA 74, MCC 950-953	**Arafura Resources Ltd**	**-**
Aileron-Reynolds Range	EL 29227[1], EL 29503[1], EL 29509[1]	**Arafura Resources Ltd**	**-**
	EL 28498[4], EL 28547, EL 28473[4]		
	EL 27335, EL 27336, EL 27337		
Aileron Basins	EL 24548[3,5], EL 24741[3]	**NuPower Resources Ltd**	**Ngalia Resources Ltd**
Nolan's	ML 26659[1]	**Arafura Rare Earths Pty Ltd**	**-**
Hammer Hill	EL 9725[4], EL 10136[4]	**Arafura Resources Ltd**	**-**
			-
Jervois	EL 10215[4], EL 26812	**Arafura Resources Ltd**	**-**
Pamela	EL 25754[1]	**Arafura Resources Ltd**	**-**

[1]Applications lodged with the Department of 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.