



ARAFURA RESOURCES LIMITED

ABN 22 080 933 455

Consolidated Interim Financial Report For the Half-Year Ended 31 December 2013

CORPORATE OFFICE

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DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Arafura Resources Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2013.

Directors

The following persons were Directors of Arafura Resources Limited during the half-year period and up to the date of this report.

I J Kowalick
C S Tonkin
S Lu
T Grose
G Lockyer ⁽¹⁾

- (1) Mr Chris Tonkin stepped down as Managing Director and Chief Executive Officer on the 23rd of July 2013 and Mr Gavin Lockyer was appointed to the position. Mr Tonkin continues to conduct his duties in the capacity of Non-Executive Director of the Company.

Review of operations

During the Half Year ending 31 December 2013, Arafura remained focused on advancing the Nolans Rare Earths Project along the path to development. Attention was focused on the following areas:

Targeted Cost Reduction Measures

At the start of the 2013 calendar year, Arafura committed to undertake a focused cost reduction program in an effort to reduce Project capital expenditure by between A\$500 million and A\$1 billion. In the six month period to 31 December 2013, the Company made significant headway in this regard.

Savings of approximately A\$400 million were realised through the relocation of the Intermediate Chemical Processing Plant from Whyalla in South Australia, to the Nolans Bore Mine site in the Northern Territory, and this led to the Company terminating its land purchase agreement for the Whyalla site. The decision to reconfigure the Project was enabled by the identification of an extensive aquifer system south-west of Nolans Bore that could potentially supply the Nolans Bore Mine & Concentrator, and the Rare Earth Intermediate Plant, with a sustainable water supply for the life of the operation. Planning is well underway for a follow-up stage of exploration and investigation drilling of several areas.

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

During the reporting period, the Company also elected to relocate the Rare Earths Separation Plant to within or alongside an established offshore chemical precinct – a decision that eliminates the need to finance the construction of a dedicated chlor-alkali facility, and improves the Company's access to key reagents and cost competitive electricity. While the final location is yet to be confirmed, Company representatives have inspected a number of sites identified through a desktop study as being potentially suitable locations. The most appealing sites have been shortlisted, and will now be the subject of further investigation and more advanced discussion with relevant business and regulatory stakeholders.

Work is continuing on identifying further cost saving opportunities, and as such, the Company is collaborating with Lycopodium Minerals to review and refine infrastructure capital costs for the Nolans Bore Mine & Concentrator and the Rare Earth Intermediate Plant.

The table below summarizes the Company's capital expenditure reduction achievements since the release of the August 2012 Nolans Project Base Case:

Capital Expenditure	August 2012 Base Case (A\$)	December 2013 (A\$)
Mine & Concentrator	\$345m	\$361m
Transport & Logistics	\$231m	\$30m
Rare Earth Intermediate & Rare Earth Separation Plants	\$1,336m	\$1,113m
Total CAPEX	\$1,912m	\$1,504m

The Company continues to review and refine operating expenditure estimates across all aspects of the Nolans Project. The key operating cost saving opportunities that have been identified to date result from the impact of processing a higher grade mineral concentrate, reducing hydrochloric acid consumption through replacement with sulphuric acid in the pre-leach circuit, and efficiencies in transport and logistics. In addition, a revision of engineering cost estimates for the Rare Earth Separation Plant is expected to be an important factor in further reducing operating costs.

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

The table below summarises the Company's operating cost reduction achievements since the release of the August 2012 Nolans Project Base Case:

	August 2012 Base Case (A\$/kg REO)	December 2013 (A\$/kg REO)
Total OPEX	\$20.55	\$17.10

Importantly, capital and operating expenditure savings identified to date do not take account of potential cost saving opportunities identified through the Chinese Technical Review and Optimisation Program.

Chinese Review and Optimisation Program

During the Half-Year period, Arafura engaged leading Chinese rare earth experts – the Institute of Multipurpose Utilisation of Mineral Resources, and the Chengdu Analytical and Testing Centre for Minerals and Rocks – to review and optimise the Project's beneficiation flowsheet. Discussions also commenced with organisations with relevant expertise in hydrometallurgy. The purpose of these discussions is to examine opportunities for review and optimisation of the Rare Earth Intermediate Plant flowsheet.

Material reductions in capital and operating costs are expected to be identified through the Chinese programs, as key unit processes and circuits in the Base Case flowsheet are optimised, and synergies with established Chinese rare earths beneficiation, hydrometallurgical and separation technologies identified and adopted.

Memorandum of Understanding with Shenghe Resources

In September 2013, the Company signed a Memorandum of Understanding (MOU) with Shanghai Stock Exchange-listed, Shenghe Resources Holding Co. Limited, a recognised leader in REO production and technology development in China.

The relationship with Shenghe Resources is expected to deliver substantial material benefits in technical process optimisation, reducing the timeline for project commercialisation and achieving further capital and operating cost reductions. Most recently, Shenghe assisted in the qualification and selection of the beneficiation program experts, and has introduced the Company to first-tier engineering and procurement contractors.

The Arafura-Shenghe MOU is currently non-binding, but both parties continue to work on identifying areas of mutual opportunity, and are in the process of drafting a more detailed Framework Agreement as the basis of a long-term strategic partnership.

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

Progress on Rare Earths Supply Agreements

Arafura made excellent progress with supply agreements during the first half of FY2014. Germany's ThyssenKrupp is closely following progress on the Nolans Project and the relationship remains strong. Both parties are now working towards developing an off-take agreement and a pricing framework.

During the Half-Year, a letter of extension covering the non-binding MOU with a large South Korean multinational was also executed. Testing completed on Arafura's sample REO products indicated that they meet the South Korean regulator's importation specifications.

Update of Other Projects

Aileron – Reynolds

During October, the Company completed an RC drilling program at the Mulga Rare Earths Prospect on EL 28473, 500 metres north-east of the Nolans Bore resource. Assay results were received in November, and while they were encouraging enough to justify continued use of Arafura's biogeochemical techniques to define rare earths prospects under barren cover, no additional exploration drilling at Mulga was warranted.

Yalyirimbi

Ferrowest Limited ("Ferrowest"; ASX: FWL) continues to progress work in relation to the Yalyirimbi Iron Project to earn up to a 60% interest in Arafura's iron ore rights on EL 24548 through an incorporated joint venture. In November, Ferrowest announced an estimate of Indicated and Inferred Mineral Resources of 13.3Mt @ 27.1% (hematite) Fe for Yalyirimbi. This is an important earn-in milestone and will see Ferrowest secure 51% in the Yalyirimbi iron project on presentation of a resource report.

Jervois

Rox Resources Limited ("Rox"; ASX: RXL) is progressing work on EL 29701 to earn up to a 70% interest in the base and precious metals mineral rights. During the Half Year, Rox completed an airborne electromagnetic (VTEM) survey over the tenement. The survey is primarily designed to detect sulphide accumulations potentially associated with base and/or precious metal mineralisation.

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

Segment Information

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

	Segment expenditures		Segment revenues		Capitalised		Segment results	
	2013	2012	2013	2012	2013	2012	2013	2012
	\$	\$	\$	\$	\$	\$	\$	\$
Project evaluation	(1,438,851)	(3,503,441)	-	20,581,104	(1,438,851)	17,077,663	-	-
Exploration	(742,654)	(315,514)	-	-	(742,654)	(315,514)	-	-
Corporate	(3,476,723)	(3,806,229)	533,223	2,540,468	-	-	(2,943,500)	(1,265,761)
Total(s)	(5,658,228)	(7,625,184)	533,223	23,121,572	(2,181,505)	16,762,149	(2,943,500)	(1,265,761)

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

(a) Project evaluation

Expenditure incurred in this segment was primarily used to review and refine infrastructure capital costs at Nolans Bore for the Mine and Concentrator and Rare Earth Intermediate Plant. Further, as a result of the executed Memorandum of Understanding with Shenge Resources Ltd which was announced in the month of September 2014, expenditure was also incurred in relation to the review and optimisation of the existing flowsheet currently being undertaken in China, and a water drilling program at Nolans.

(b) Exploration

Expenditure incurred in this segment was primarily for RC drilling on EL 28473 at the Mulga Prospect and maintenance costs on the company's other tenements. Arafura also acquired uranium exploration and development rights from Central Australian Phosphate Limited on a number of Arafura tenements with the objective of simplifying the ownership structure for its tenement holdings.

(c) Corporate

Expenditure incurred under this segment was for corporate costs including legal, compliance, sales and marketing, business development, finance and commercial costs.

Events occurring after the Reporting Date

No reportable events have occurred since the reporting date.

AUDITORS' INDEPENDENCE DECLARATION

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 8.

Signed in accordance with a resolution of the Directors.



Gavin Lockyer
CEO & Managing Director

Perth
19 February 2014

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

As lead auditor for the review of Arafura Resources Limited for the half-year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

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



Glyn O'Brien

Director

BDO Audit (WA) Pty Ltd

Perth, 19 February 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

		Consolidated Entity Half-Year	
		31 Dec 2013	31 Dec 2012
Notes		\$	\$
Revenue from continuing operations	3	533,223	583,824
Other income	3	(197,414)	2,168,296
Employee benefits expense	4	(2,064,647)	(1,968,394)
Other expenses	4	(1,626,307)	(1,993,314)
Depreciation and amortisation	4	(56,127)	(61,084)
Finance costs	4	(256)	(938)
Impairment of assets	4	(264,072)	(31,150)
Loss before income tax		(3,675,600)	(1,302,760)
Income tax benefit		-	-
Net (Loss) for the half-year		(3,675,600)	(1,302,760)
Other comprehensive income/ (loss) for the half-year		-	-
Total comprehensive(loss) for the half-year		(3,675,600)	(1,302,760)
Total comprehensive (loss) for the half-year attributable to owners of Arafura Resources Limited		(3,675,600)	(1,302,760)
		Cents	Cents
Loss per share for (loss) attributable to owners of Arafura Resources Limited			
Basic loss per share		(0.8)	(0.3)
Diluted loss per share		(0.8)	(0.3)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2013

		Consolidated Entity Half-Year	
		31 Dec 2013	30 June 2013
Notes		\$	\$
CURRENT ASSETS			
	Cash and cash equivalents	25,945,276	32,183,321
	Trade and other receivables	418,674	525,035
	Total Current Assets	26,363,950	32,708,356
NON-CURRENT ASSETS			
	Property, plant and equipment	221,373	255,736
	Deferred exploration, evaluation and development costs	112,690,920	111,037,558
	Total Non-Current Assets	112,912,293	111,293,294
	TOTAL ASSETS	139,276,243	144,001,650
CURRENT LIABILITIES			
	Borrowings	10,890	16,031
	Trade and other payables	975,984	2,025,555
	Provisions	531,761	786,845
	Total Current Liabilities	1,518,635	2,828,431
NON-CURRENT LIABILITIES			
	Provisions	157,874	112,117
	Total Non-Current Liabilities	157,874	112,117
	TOTAL LIABILITIES	1,676,509	2,940,548
	NET ASSETS	137,599,734	141,061,102
EQUITY			
	Contributed equity	194,128,196	194,128,196
	Reserves	11,396,247	11,182,015
	Accumulated losses	(67,924,709)	(64,249,109)
	TOTAL EQUITY	137,599,734	141,061,102

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

Consolidated	Notes	Contributed equity \$	Equity reserve \$	Accumulated Losses \$	Total \$
Balance at 1 July 2012		184,363,890	10,953,178	(52,486,961)	142,830,107
Total comprehensive loss for half-year					
Loss for the half-year		-	-	(1,302,760)	(1,302,760)
Total comprehensive loss for half-year		-	-	(1,302,760)	(1,302,760)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs and tax		9,765,222	-	-	9,765,222
Cost of share based options		-	155,481	-	155,481
		9,765,222	155,481	-	9,920,701
Balance at 31 December 2012		194,129,112	11,108,659	(53,789,721)	151,448,050
Balance at 1 July 2013		194,128,196	11,182,015	(64,249,109)	141,061,102
Total comprehensive loss for half-year					
Loss for the half-year		-	-	(3,675,600)	(3,675,600)
Total comprehensive loss for half-year		-	-	(3,675,600)	(3,675,600)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs and tax		-	-	-	-
Cost of share based options		-	214,232	-	214,232
		-	214,232	-	214,232
Balance at 31 December 2013	8	194,128,196	11,396,247	(67,924,709)	137,599,734

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

	Consolidated	
	31 Dec 2013	31 Dec 2012
Notes	\$	\$

Cash flows from operating activities

Payments to suppliers and employees	(3,443,322)	(3,986,047)
Interest received	403,523	394,834
R&D incentive rebate – non-capitalised portion	-	1,956,643
Interest paid	(2,601)	(938)
Net cash (outflow) from operating activities	(3,042,400)	(1,635,508)

Cash flows from investing activities

Payment for property, plant and equipment	(21,764)	(2,046,928)
Payments for exploration and evaluation	(3,196,326)	(5,233,872)
R&D incentive rebate - capitalised portion	-	20,581,104
Net cash inflow/(outflow) from investing activities	(3,218,090)	13,300,304

Cash flows from financing activities

Net proceeds from issue of shares	-	9,765,223
Repayments of finance lease	(5,141)	-
Net cash inflow/(outflow) from financing activities	(5,141)	9,765,223

Net increase/(decrease) in cash and cash equivalents	(6,265,631)	21,430,019
Cash at the beginning of the financial period	32,183,321	19,545,603
Effects of exchange rate changes	27,586	(13,346)
Cash and cash equivalents at the end of the financial period	25,945,276	40,962,276

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

Note 1: Basis of Preparation of Half-Year Report

(a) Basis of preparation

This general purpose financial report for the interim half-year reporting period ended 31 December 2013 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2013 and any public announcements made by Arafura Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The same accounting policies and methods of computation have generally been followed in these half-year financial statements as compared with the most recent annual financial statements, except as follows:

- *AASB 10 Consolidated Financial Statements*
- *AASB 11 Joint Arrangements*
- *AASB 13 Fair Value Measurement*
- *AASB 119 Employee Benefits*
- *Interpretation 20 Stripping Costs in the production Phase of a Surface Mine*
- *AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*

In the half-year ended 31 December 2013, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2013.

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2013. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

Note 2: 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 segment
- (ii) Exploration segment
- (iii) Corporate

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

From a current geographical perspective the three reportable business segments operate in Australia. Should transfer prices between operation segments occur, they would be on an arm's length manner similar to transactions with third parties.

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

(b) Segment information provided to the Arafura Board

Management has determined, based on strategic management reports on each segment reviewed by the Arafura Board, 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 Arafura Board for the reportable segments for the half-year ended 31 December 2013 is as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

Note 2: Segment Information (cont)

CONSOLIDATED

	Project evaluation	Exploration	Corporate	Total
6 Months to 31 December 2013				
Segment revenue	-	-	533,223	533,223
Segment expenditure	(1,438,851)	(742,654)	(3,476,723)	(5,658,228)
Inter-segment expenditure	-	-	-	-
	(1,438,851)	(742,654)	(2,943,500)	(5,125,005)
Adjusted EBITDA	-	-	(2,943,500)	(2,943,500)
Capitalised expenditure	(1,438,851)	(742,654)	-	(2,181,505)
	(1,438,851)	(742,654)	(2,943,500)	(5,125,005)
6 months to 31 December 2012				
Segment revenue	20,581,104	-	2,540,468	23,121,572
Segment expenditure	(3,503,441)	(315,514)	(3,806,229)	(7,625,184)
Inter-segment expenditure	-	-	-	-
	17,077,663	(315,514)	(1,265,761)	15,496,388
Adjusted EBITDA	-	-	(1,265,761)	(1,265,761)
Capitalised expenditure	17,077,663	(315,514)	-	16,762,149
	17,077,663	(315,514)	(1,265,761)	15,496,388
Total segment assets				
31 Dec 13	98,056,867	14,637,086	26,582,290	139,276,243
30 Jun 13	96,618,017	14,428,434	32,955,199	144,001,650
Total segment liabilities				
31 Dec 13	809,556	13,713	853,240	1,676,509
30 Jun 13	2,073,152	38,866	828,530	2,940,548

Adjusted EBITDA

Finance Costs	(256)	(938)
Depreciation & amortisation	(56,127)	(61,084)
Share option expense	(214,232)	(155,479)
Gain/(Loss) on disposal of assets	-	(13,348)
Income accrued from Demonstration Plant reimbursement	(225,000)	225,000
Impairment on assets	(264,071)	(31,150)
Unrealised exchange rate (loss)/gain	27,586	-
Loss before income tax	(3,675,600)	(1,302,760)

Consolidated	
2013	2012
(2,943,500)	(1,265,761)
(256)	(938)
(56,127)	(61,084)
(214,232)	(155,479)
-	(13,348)
(225,000)	225,000
(264,071)	(31,150)
27,586	-
(3,675,600)	(1,302,760)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

Note 3: Revenue

Consolidated Entity Half-Year	
31 Dec 2013	31 Dec 2012
\$	\$

Revenue from continuing operations

Other revenue

Interest received

533,223	583,824
533,223	583,824

Other Income

Foreign exchange gain/(loss)

Non-capitalised portion of R&D Tax Incentive rebate

Other

27,586	(13,348)
-	1,956,644
(225,000)	225,000
(197,414)	2,168,296

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

Note 4: Expenses

Consolidated Entity Half-Year	
31 Dec 2013 \$	31 Dec 2012 \$

(a) Expenses

Depreciation

Depreciation – plant & equipment	39,903	45,409
Depreciation – motor vehicles	5,860	5,860
Depreciation – leasehold improvements	10,364	9,815
Total depreciation	56,127	61,084

Finance costs

Interest expense	256	938
Total finance costs	256	938

Other expenses

Accounting and other professional fees	8,648	258,499
Audit fees	25,000	25,000
Consultants fees	456,787	469,378
Employee benefits expense	1,850,415	1,812,915
Insurance	57,023	35,109
Legal fees	155,522	283,368
Share-based employee benefits	214,232	155,481
Share registry and stock listing fees	56,867	42,098
Other expenses	866,460	879,860
Total other expenses	3,690,954	3,961,708

Impairment Expenses

Capitalised exploration expenditure	264,072	31,150
Total impairment of assets	264,072	31,150

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

Note 5: Fair Values of Financial Instruments

Recurring fair value measurements

The group does not have any financial instruments that are subject to recurring or non-recurring fair value measurements.

Fair values of financial instruments not measured at fair value

Due to their short term nature, the carrying amount of current receivables, current trade and other payables and current interest-bearing liabilities is assumed to approximate their fair value.

Note 6: Current and Non-Current Liabilities - Provisions

Consolidated Entity Half-Year	
31 Dec 2013	30 Jun 2013
\$	\$

Current

Provision for Annual Leave	207,717	183,931
Provision - Demonstration plant and liquids ^(a)	324,044	602,914
	531,761	786,845

Non-Current

Provision for long service Leave	157,874	112,117
	157,874	112,117

(a) These amounts relate to decommissioning of the Demonstration Plant at ANSTO and liquid residues and wastes collected from analytical test runs and sampling of Nolans Ore which require adequate disposal

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

Note 7: Deferred Exploration and Evaluation Expenditure

Consolidated Entity Half-Year	
31 Dec 2013	30 Jun 2013
\$	\$

Exploration, evaluation and development costs carried forward

Balance at beginning of financial period	111,037,558	125,475,008
Capitalised exploration expenditure	478,582	677,681
Capitalised evaluation expenditure ^(a)	1,438,851	13,144,142
Impairment of exploration expenditure	(264,071)	(29,430)
Impairment of non-recoverable deposits - Whyalla land purchase	-	(5,000,000)
Impairment of capitalised EIS costs - Whyalla	-	(2,648,739)
R&D Tax Incentive rebate receipted against capitalised evaluation costs	-	(20,581,104)
Balance at end of financial period ^(b)	112,690,920	111,037,558

- (a) Capitalised evaluation expenditure is expenditure on the Nolans Project feasibility works, demonstration plant and environment impact assessment to evaluate, formulate and demonstrate the technical feasibility and commercial viability in developing a rare earths processing plant to process and treat the ore to be mined from the Nolans Project.
- (b) No R&D rebate for current period as the claim for 30 June 2013 is yet to be lodged.

The exploration and evaluation costs in relation to each area of interest are carried forward as an asset where the Group:

- Has rights to tenure of the area of interest; and
- The exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest or; alternatively by its sale; or
- Exploration and evaluation activities in the area of interest have not at the end of the reporting period reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

Note 8: Contributed Equity

Issues of ordinary shares during the half-year:

	December 2013	December 2012	December 2013	December 2012
	Shares	Shares	\$	\$
Balance at 30 June	441,270,644	396,004,144	194,128,196	184,363,890
Employee options exercised	-	-	-	-
Private Placement	-	45,266,500	-	9,958,630
Capital raising costs	-	-	-	(193,408)
Balance at 31 December	441,270,644	441,270,644	194,128,196	194,129,112

Note 9: Contingent Liabilities

(i) 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.

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

Note 10: Dividends

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

Note 11: Related Party Transactions

During the half-year, Arafura issued 7,650,000 options to employees, 6,500,000 of these options were issued to Key Management Personnel. The table below outlines the details of the options issued to Key Management Personnel:

Key Management Personnel	Options Issued during Half-Year ended Dec 2013	Exercise Price \$	Fair Value over HY period \$	Fair Value over vesting period \$	Issue Date	Vest Date	Expiry Date
Gavin Lockyer	2,500,000	0.14	46,616	102,500	18/07/2013	18/07/2014	18/07/2016
Peter Sherrington	800,000	0.14	14,917	32,800	18/07/2013	18/07/2014	18/07/2016
Richard Brescianini	800,000	0.14	14,917	32,800	18/07/2013	18/07/2014	18/07/2016
Neil Graham	800,000	0.14	14,917	32,800	18/07/2013	18/07/2014	18/07/2016
John Ganser	800,000	0.14	14,917	32,800	18/07/2013	18/07/2014	18/07/2016
Brian Fowler	800,000	0.14	14,917	32,800	18/07/2013	18/07/2014	18/07/2016

Total	6,500,000	-	121,201
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There were no other related party transactions during the half-year.

Note 12: Events occurring after the Reporting Date

No reportable events have occurred after the reporting date.

DIRECTORS' DECLARATION

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

In the directors' opinion:

- (a) the financial statements and notes set out on pages 9 to 21 are in accordance with the *Corporations Act 2001*; and
 - (i) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) give a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date.
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



Gavin Lockyer
CEO & Managing Director

Perth
19 February 2014

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Arafura Resources Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Arafura Resources Limited, which comprises the consolidated statement of financial position as at 31 December 2013, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Arafura Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

BDO Audit (WA) Pty Ltd



Glyn O'Brien

Director

Perth, 19 February 2014