



Arafura Resources Limited

ABN 22 080 933 455

Annual Report

30 June 2019

Registered Office and Principal Place of Business:
Level 3, 263 Adelaide Terrace
Perth, Western Australia
Australia 6000

NdPr

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CORPORATE DIRECTORY

Directors	Mark Southey (Chairman and Non-Executive Director) Gavin Lockyer (Managing Director and Chief Executive Officer) Chris Tonkin (Non-Executive Director) Quansheng Zhang (Non-Executive Director)
Company Secretary	Peter Sherrington
Annual General Meeting to be held at	BDO Audit (WA) Pty Ltd 38 Station Street Subiaco Western Australia 6008
Time	10:00am (WST)
Date	Thursday, 17 October 2019
Principal registered office in Australia	Level 3, 263 Adelaide Terrace Perth Western Australia 6000
Share registry	Link Market Service Ltd QV1 Building, Level 12, 250 St Georges Terrace Perth Western Australia 6000
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
Bankers	Westpac Banking Corporation Tower 2, Level 3 123 St Georges Terrace Perth Western Australia 6000

CORPORATE DIRECTORY

Stock exchange Listing

Arafura Resources Limited shares are listed on the Australian Stock Exchange under the ticker code "ARU".

Website

www.arultd.com

CHAIRMAN'S REPORT

Dear Shareholder,

On behalf of your Board of Directors, it is my pleasure to present the 2019 Annual Report of Arafura Resources Ltd.

FY19 was a year of great progress for the Company. Whether one looks at the Project's fundamentals, engagement with the market and financiers or the configuration of the Project, the Company continued to move closer to the goal of commercialising the massive resource of neodymium and praseodymium at the Nolans site. This goal is drawing closer, particularly when one reflects on the fragile state of global NdPr supply, complicated by the overlay of China-US trade tensions and the questions this raises over the security of supply to US defence and other industries.

We have delivered a long-awaited Definitive Feasibility Study (DFS) on the Project with positive results; completed a rigorous and highly technical Pilot Program to help ensure a smooth production ramp-up at the Nolans Project and give additional comfort to the finance community; configured a fully integrated Australian-based NdPr project producing a value added export product; sourced vital capital to the Company to fund a big year ahead and introduced a highly credentialed strategic rare earths sector investor as a key shareholder to the Company.

Just turning to the Project itself, I will give Gavin the courtesy of elaborating on the delivery of the DFS in more detail given how intimately involved he was in its production but, suffice it to say, we are very pleased with the outcome. The Company has produced a robust and highly detailed study, incorporating the learnings of our ground breaking Pilot Program. It provides the basis for Arafura to confidently engage with customers and finance providers, a process which is well advanced.

On this front, during the year we signed the first Memorandum of Understanding (MoU) for the Project's planned NdPr production, with a Chinese magnet manufacturer. Again, Gavin will elaborate in more detail in his remarks, but let me make it clear, this was a critical advancement in the commercialisation of the Project and a key signal to the banking community of end users' confidence in it. We hope to add further offtake agreements in the coming year.

Tangible progress was also made on the financing of the Project in FY19. This is rarely a simple matter for any Project, let alone one such as Nolans which is producing a product less well understood than copper for instance. The Company has had a fruitful engagement thus far with the Northern Australia Infrastructure Facility (NAIF) with regard to potential debt funding. The NAIF is a \$5 billion lending facility established by the Federal Government to provide loans to infrastructure projects in northern Australia. NAIF can lend up to 100% of a project's debt on concessional terms, provided there is appropriate risk sharing.

The Company is looking to the NAIF to fund a portion of the Project's capex as part of a larger debt package. In late February 2019 the NAIF completed its strategic assessment of the Nolans Project and determined that Nolans should move to the Due Diligence (DD) stage of the NAIF assessment process. Export Credit Agencies (ECAs) are likely to be central to our project funding strategy and the decision by NAIF to progress to DD is an important consideration for the Company's ongoing engagement with ECAs and financiers across a number of jurisdictions.

The market for metals and mining stocks was a strong one in FY19. The ASX300 Metals & Mining Index rallied 19.1% during the year, strongly outperforming the broader market's return of 6.8%. It pleases me to note that Arafura turned in another strong share price performance, albeit with its customary high volatility. We like to think that the equity market is recognising the rare earths sector and the merits of Arafura in particular, rewarding shareholders with an approximately 33% price rise in FY19,

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beating the median performance of our rare earths emerging developer and producer peer group of around +21%.

With this relatively strong performance as a backdrop, the Company continued to demonstrate an ability to raise equity capital to fund its intense levels of activity. The key feature of which was the investment in Arafura of almost \$5 million by Talaxis Group late in the year. This is a strongly positive outcome for the Company.

After a strong performance in the preceding 2 years, NdPr prices took a breather in FY19 and finished the year flat. This was a decent performance when one considers what took place in other commodity markets. Whilst gold had a positive year in FY19, base metals declined by about 13% whilst the battery complex metals, lithium and cobalt fell an astonishing 31% and 63% respectively.

It would certainly make our jobs easier if NdPr prices were running hot but our sense is that there is suppressed and significant pricing upside. The facts are plain: China accounts for 80% of rare earths production and is cracking down on illegal and environmentally destructive supply; it is curtailing imports from other countries like Myanmar; there are limited new projects globally, and NdPr supply is going to have to grow by about 25,000 tonnes by the end of the next decade to meet demand. All this points to China becoming a net importer and we have seen the impact this can have on a commodity's price such as iron ore, and thermal and metallurgical coal in the late 2000s. It is this trend that the Arafura Board and strategic investors such as Talaxis are focused on. While NdPr prices currently remain hostage to trade tensions between China and the US and the uncertainty that evokes in technology metal consumers, it only continues to further pressurise the supply chain.

I would like to thank my fellow Directors for their counsel this year. Gavin Lockyer and his executive team have moved the Project on materially in 2019 and on behalf of the Board, I thank them for that. We are readying ourselves for the final push this year as the focus now firmly turns to project funding and execution readiness. On that front we have never been more confident.

Yours Sincerely



Mark Southey
Chairman

MANAGING DIRECTOR'S REVIEW

It would be fair to say that 2019 has been the busiest year yet for the Arafura team. This year we have demonstrated that Nolans is an outstanding NdPr project and the project most likely to help supply the coming surge in NdPr demand driven by the irreversible trends of electric vehicles and clean energy.

During the year the Company was extremely pleased to have successfully concluded its technical and economic review of the Nolans Project. The technical review consisted of a 7 stage Pilot Program with Stages 5 and 6 completed in 2019 without any negative surprises. Stage 7, which incorporates Rare Earth Separation, will be concluded in 2020 to re-confirm Arafura's previous separation work undertaken at ANSTO. This will represent the culmination of a body of work that commenced in late 2016. The successful operation of our Rare Earth Processing pilot plant marks the conclusion of the large-scale validation of our process flowsheet. It is our expectation that going to this expense and considerable technical effort prior to construction will provide significant information for detailed design and make the production ramp-up at Nolans much smoother than might otherwise have been the case.

The economic review of the Project, which consisted of a detailed DFS, confirmed Nolans as a world-class NdPr project with average annual production of 4,357 tonnes per annum (tpa) of NdPr oxide – 21% higher than previously estimated – and second only to Lynas in scale. Pleasingly, the increase in production rates did not require an increase in capex. It also highlighted the project as an ultra-low cost producer of NdPr, at a mere US\$25.94/kg of NdPr oxide, well below Lynas and other potential developers' costs. Furthermore, it demonstrated Nolans' tremendous leverage to higher NdPr prices. For every US\$5/kg increase in NdPr oxide price the Project's base case NPV₁₀ of A\$729 million increases by A\$130 million. With a 23-year mine life, Nolans has the potential to help satisfy the world's demands for electric vehicles and the key components they require for decades to come.

Negotiating offtake agreements for Nolans' production has been, and remains, one of our key objectives. Such agreements are vital to ensuring banking support and to demonstrate to the equity market the credentials of the Project. With the Pilot Program and DFS' completion, management can confidently enter into these discussions armed with highly detailed information on the Project's technical and economic merits.

In October 2018, the Company announced the signature of a non-binding Memorandum of Understanding (MoU) with JingCi Material Science Co. Ltd for the supply of NdPr oxide. JingCi is a Tier 1 Chinese manufacturer of Neodymium Iron Boron (NdFeB) permanent magnets and supplies most of its magnet production to globally recognised automotive, wind energy, consumer electronics and industrial motor companies as well as to original equipment manufacturers (OEMs) in the supply chain. The MoU envisages offtake of 900tpa, about 20% of our increased NdPr production target of 4357tpa. This agreement was our inaugural MoU covering NdPr output.

The Company is in ongoing discussions with potential customers in China, South Korea, Japan and Europe for MoUs covering the balance of our planned NdPr output. We are confident of achieving significant progress towards binding offtake agreements. Our new relationship with key strategic shareholder Talaxis could yield benefits in this regard.

With respect to the Project itself we made a major change to its configuration this year. The decision was taken to co-locate the Rare Earths Separation Plant at the Nolans site here in Australia, rather than offshore. As the name suggests, the Separation Plant hosts the final stages of rare earth processing and takes a mixed rare earth intermediate (chloride) product and refines it into high-value NdPr oxide and other rare earth products. Arafura had previously planned for the Separation Plant to be located offshore. However, process and configuration efficiencies identified through the project's Definitive Feasibility Study (DFS) and Arafura's extensive Pilot Program have made the relocation of

MANAGING DIRECTOR'S REVIEW

the Separation Plant to the Nolans site more feasible. The decision will also mitigate some of the Project's operational risks.

This decision will make Nolans the only 100% Australian domiciled project and unlocks significant value prior to product export. The mine, beneficiation plant, extraction plant and separation plant will be entirely located in Australia. Our engagement with NdFeB magnet manufacturers and end users indicates a growing focus on the provenance of NdPr supply being sustainable and managed in an environmentally and socially responsible manner. This decision should help mitigate the risk of encountering issues akin to Lynas' difficulties with the Malaysian government in relation to its processing facility located in Malaysia.

The collateral benefits of this decision also include a higher percentage of the Project's total capital expenditure to be invested in Australia, the creation of more jobs in Australia rather than offshore and the production and export of a value-added product from Australia.

With the key environmental and project development approvals secured 15 months ago, the most important remaining permitting requirement we face is concluding a Native Title Agreement. We continue to engage with the Central Land Council (CLC) which is negotiating on behalf of the project site's Native Title holders and we are confident of a satisfactory outcome. Concluding these negotiations is a key objective for us as the Northern Territory Government will then be able to grant the Mineral Leases (MLs) for the Project shortly thereafter. The granting of the MLs will be another critical box ticked for potential project financiers.

Producing final designs for the Project and detailed engineering to enable construction to commence as early as possible is a large body of work and we are focused on getting ready for this task. Pre-execution readiness activities have continued through 2019 to enable an efficient transition from feasibility to front end engineering and design (FEED), and procurement and construction. With the substantial capital raising we executed in July 2019 the Company is looking to bring forward project commitment and FEED with the aim of facilitating commencement of procurement and early works construction activities shortly after production commitment and the availability of project funding.

To reiterate where management's focus lies in 2020, the completion of the DFS has left us in a stronger position than ever before to engage with potential customers and financiers. This year we expect to secure further end user interest and convert that into all important offtake agreements. We are hopeful of advancing our discussions with the NAIF and leveraging that into tangible progress with other debt providers. We are also anticipating the relationship with Talaxis will give us a genuine competitive edge versus other aspiring NdPr producers in terms of our ability to commercialise our Project. Arafura is extremely proud to have partnered with Noble and the team it has assembled at Talaxis.

I would like to sincerely thank my team at Arafura for the tremendous amount of work they got through this year and also the Board for their ongoing guidance. The DFS was a large undertaking and, alongside our large scale validation piloting activities, was no easy feat. We are not going to take our foot off the accelerator though. Last year in this report I alluded to a transformational year ahead - it was proven thus. 2020 will be no different and we are on the job!

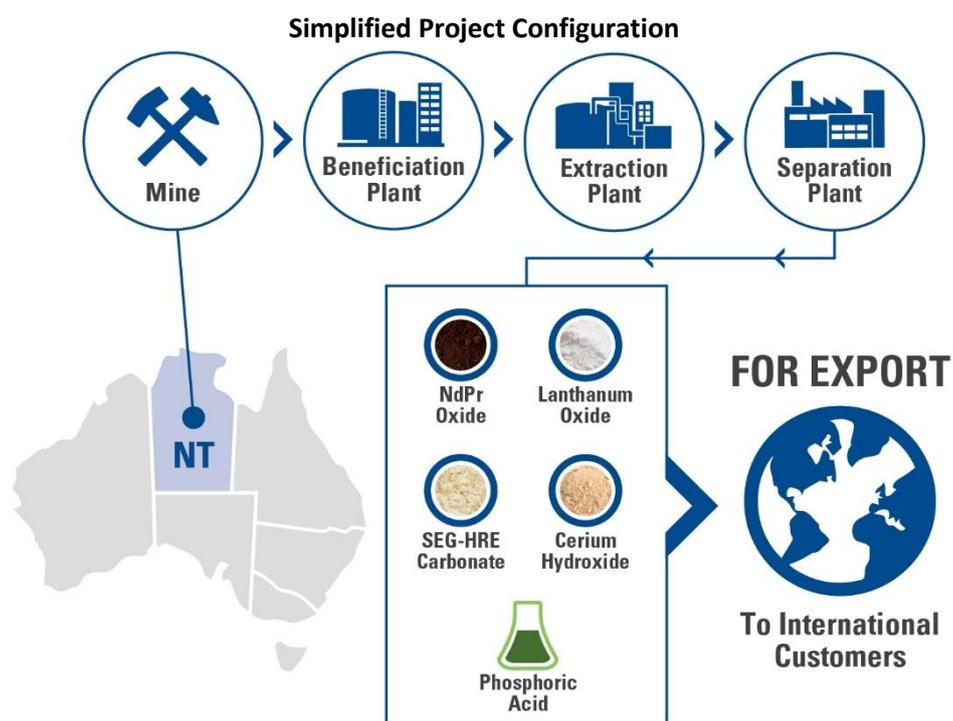


Gavin Lockyer
Managing Director and Chief Executive Officer

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ALL PROCESSING AT NOLANS

In a first for Australia, Arafura announced in November 2018 its plans to build a Separation Plant at the Nolans site as part of the process plant for the Project. The Company had previously planned for the Separation Plant to be located offshore, however, process and configuration efficiencies identified in the Definitive Feasibility Study (DFS) and Arafura's extensive metallurgical testwork and flowsheet piloting programs made the placement of the Separation Plant at the Nolans site more feasible. The decision mitigates some of the project's operational risks and poses no additional environmental impact outside the envelope defined in the project's Environmental Impact Statement (EIS).



FURTHER SUCCESS IN DOWNSTREAM FLOWSHEET PILOTING

Phases 5 and 6 of Arafura's comprehensive flowsheet piloting program – collectively termed Rare Earth Processing – operated at ALS Metallurgical Services facilities in Perth during November-December 2018. The purpose of flowsheet piloting is to collect key operational, performance, process, mass balance, mechanical engineering and materials handling data for inclusion in, and to support the basis of design and final operating and capital costings for, the DFS.

Rare Earth Processing piloting proved successful in producing large volumes of in-specification NdPr-enriched rare earth chloride liquor. A key feature is the removal (>99.5%) of the high-volume rare earth cerium (Ce) from the rare earth chloride feed into rare earth separation, to produce a saleable Ce hydroxide co-product. This process represents valuable intellectual property to Arafura and provides a significant downstream operational advantage over traditional separation circuits run by other rare earth companies.

The final phase of flowsheet piloting, Rare Earth Separation, is planned for the latter part of 2019.

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Rare Earth Processing Pilot Plant Phase 5 (L) & Phase 6 (R)



DEFINITIVE FEASIBILITY STUDY DELIVERS ROBUST PROJECT ECONOMICS

In February 2019 (refer to ASX announcement 7 February 2019), the Company delivered its much-anticipated DFS, employing expert consultants in all of its significant aspects including estimating Ore Reserves, capital costs and operating costs. The DFS presents a technically strong and cost-competitive project forecast to generate an average of A\$377 million EBITDA per annum over a minimum 23-year mine life.

To produce the forecast average annual output of 4,357 tonnes of NdPr oxide and 135,808 tonnes of merchant grade (54% P₂O₅) phosphoric acid requires pre-production capital expenditure of A\$1,006 million (US\$726 million) which includes a A\$110.4 million contingency. Nolans benefits from its Australian domicile and its proximity to transport, water and energy infrastructure.

The Project's scale is expected to deliver significant economic and social benefits over many decades to central and northern Australia. Peak construction workforce is estimated at 650, with a steady state operations workforce of 280 people.

The Project by industry standards has a low operating cost which is driven by Nolans endowment in the high demand rare earths NdPr with over 96% of revenue from rare earth products forecast to be sourced from NdPr oxide. A large proportion of the rare earths at Nolans are hosted in apatite (a phosphate mineral) and, in contrast to other rare earth producers, the Project produces phosphoric acid as a by-product. After offsetting this by-product against operating costs, Nolans is clearly in the lowest quartile of the cost curve at A\$36.85 per kilogram (US\$25.94) of NdPr oxide.

The financial evaluation of the Project has been undertaken using a Discounted Cash Flow (DCF) analysis in Australian dollars. The DCF analysis shows a base case post-tax Net Present Value (NPV) of A\$729 million (US\$497 million) at a 10% discount rate and an Internal Rate of Return (IRR) of 17.43% calculated over the life of mine with a payback return of capital in year 5. On an incentive price basis, the Project requires an NdPr oxide price of US\$76 per kilogram to achieve an IRR of 15%, or US\$59 per kilogram to achieve a 10% IRR.

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Sensitivity analysis on the base case was undertaken to demonstrate the impact of changes in key assumptions and variables on the financial results. This analysis shows the Project is highly leveraged to changes in the NdPr oxide price and relatively insensitive to other variables. The base case assumption for the NdPr oxide selling price ranges from US\$67 to US\$90 per kilogram across the life of mine. For every US\$5 per kilogram change in the NdPr oxide price, the Project NPV moves by A\$130 million.

DFS Summary Results

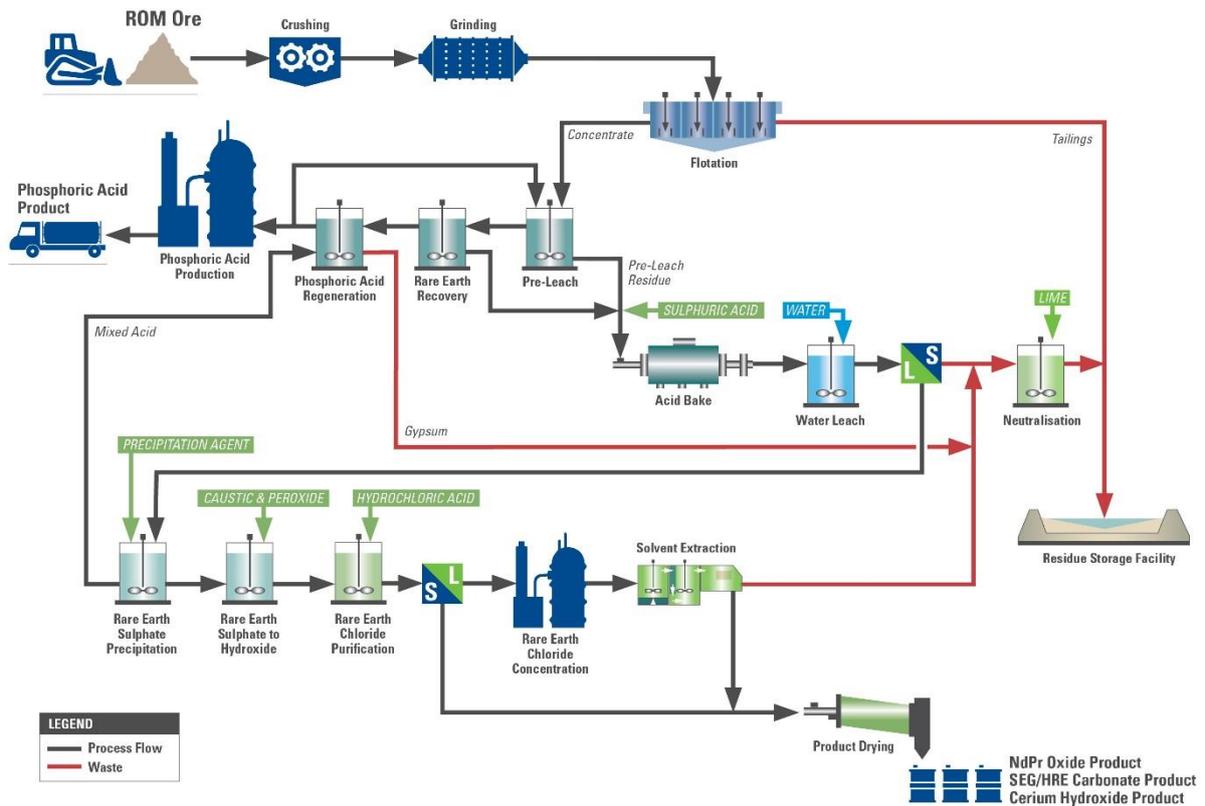
Mining & Processing		
Mine Life (years)	23	
Concentrate (tpa)	293,000	
Production		
TREO equivalent (tpa)	13,343	
NdPr Oxide (tpa)	4,357	
Cerium Hydroxide (tpa TREO basis)	8,383	
SEG-HRE Carbonate (tpa TREO basis)	603	
Phosphoric Acid (tpa 54% P ₂ O ₅ MGA)	135,808	
Financial	US\$	A\$
Capital Cost (\$m)	726	1,006
Rare Earth Sales Revenue (\$m pa)	379	539
Phosphoric Acid Sales Revenue (\$m pa)	35	50
Mining Costs (\$m pa)	(30)	(43)
Processing Costs (\$m pa)	(103)	(148)
General & Administration Costs (\$m pa)	(15)	(21)
EBITDA (\$m pa)	266	377
KPI Analysis	US\$	A\$
Operating Cost \$/kg NdPr	34.07	48.40
Operating Cost \$/kg NdPr with MGA credit	25.94	36.85
NPV ₁₀ after tax (\$m)	497	729
IRR after tax (%)	17.43%	
After tax payback	Year 5	
IRR 15% @ US\$/kg NdPr	76	
IRR 10% @ US\$/kg NdPr	59	

* Production and financial data is calculated as the annual average following a three year ramp-up and excluding the partial final year production

Refer ASX announcement 7 February 2019: Nolans Definitive Feasibility Study

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Simplified Nolans Block Flow Diagram



POST-DFS PROJECT DEVELOPMENT ACCELERATING

In the months following the release of the DFS, the Company has begun to accelerate the planning and implementation of execution readiness activities which will culminate in awarding the contracts for the early contractor involvement phase of the Project. In addition, a Memorandum of Understanding (MOU) has been executed to supply a second-hand accommodation village for the Project, and potential cost saving opportunities identified during the DFS in campaign mining and optimising process plant layout are being investigated.

STEADY PROGRESS IN PRODUCT OFFTAKE

Pivotal to securing funding to construct the Nolans Project is the advancement of offtake agreements for Arafura's product offering, most particularly for its NdPr oxide product which is forecast to provide 96% of annual rare earth sales revenue of A\$539 million. Engagement with potential funding partners is linked with long term strategic offtake into the neodymium iron boron (NdFeB) permanent magnet supply chain along with the procurement of high value specialist equipment. These activities are ongoing and running parallel with offtake discussions for NdPr oxide.

The Company's NdPr oxide marketing strategy is underpinned by targeting customers in the high growth NdFeB magnet supply chain. The potential for NdPr supply imbalance will be more pronounced for supply chain stakeholders not aligned with the *Made in China 2025* strategy. Marketing efforts are focused on customers incentivised to reduce their Chinese NdPr supply risk, which include:

- Japan – NdFeB magnet manufacturers and trading houses for eventual use in the Japanese automotive sector and in factory automation;

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- Europe and South Korea – Automotive, OEMs, wind turbine and consumer electronics makers diversifying NdPr supply risk and seeking product traceability; and
- China – Tier one NdFeB magnet manufacturers that have significant export sales to Europe, Japan and the USA.

In the first half of 2019, negotiations centred on NdPr product offtake have been a key focus for the Company’s executive team. Arafura has signed two non-binding offtake MOUs for its three rare earth products to date, including with leading Chinese magnet manufacturer JingCi Material Science Co. for 900 tonnes of NdPr oxide per annum, which it now aims to convert to contracts. Engagement with participants at several points in the NdPr supply chain (*i.e.* separators, metal converters, magnet manufacturers, OEMs and end users) in Japan, South Korea, China and Europe remains highly encouraging, underpinned by rising demand-side pressure for NdFeB magnets in applications that will enable the widespread adoption of electric (EV) and hybrid electric (HEV) vehicles, clean energy and factory automation.

The Company is also making solid progress in marketing its phosphoric acid product to fertiliser companies in India.



NAIF HIGHLIGHTS STRATEGIC IMPORTANCE OF NOLANS

In February 2019 the Northern Australia Infrastructure Facility (NAIF) completed a strategic assessment of Nolans and determined that the Project will transition to the Due Diligence (DD) stage of the NAIF assessment process. NAIF is a key initiative of the Australian Government to provide access

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to up to A\$5 billion of debt finance, which may be on concessional terms, to support and encourage infrastructure development that generates public benefit for northern Australia. Arafura is in the process of developing a comprehensive investment proposal as the basis for DD that will involve, but not be limited to, offtake, credit risk, environmental and social analysis by NAIF.

THE NdPr MARKET

NdPr policy changes in China, supply chain reform in the U.S., and the U.S.-China trade dispute dominated the demand and supply drivers for the NdPr oxide market during the year.

CHINESE POLICY CHANGES

China remains the leading source of NdPr accounting for over 80% of global production. The Chinese NdPr supply chain is becoming increasingly sophisticated with continued focus on removing illegal production and improved traceability. China's removal of unsustainable NdPr production is real and ongoing, and it appears that investment and production quota is focused on groups that follow the lead of being environmentally sustainable. Consistent with the *Made in China 2025* strategy, new NdPr investment is being directed to downstream value-added businesses, in contrast to growth in upstream Chinese NdPr production in the 1990s-2000s period which was enabled by access to government funding and supportive policy.

China's consumption of NdPr is expected to grow by 30% over the next five years for which it will need to secure new supply sources. Chinese NdPr producers and NdFeB magnet manufacturers are already looking at opportunities to secure NdPr raw materials from Australia, Greenland and Africa to satisfy these longer-term growth requirements. China will look to leverage its domestic NdPr production for the purposes of creating manufacturing capacity in higher value downstream processing.

BALINFO and Shanghai Metals Market have highlighted the dramatic growth in Chinese rare earth concentrate imports in the period since the crackdown on illegal and unsustainable production in China. It is estimated that 81% of rare earth concentrate traded in China in 2017 was imported material. As illegal material has been removed by Chinese authorities, the gap between legal supply and demand has been satisfied with imported material. The increased reliance on imported concentrate has placed greater emphasis and scrutiny on waste disposal from imported materials that have high impurities including elevated radioactivity due to the presence of uranium and thorium.

Rare earth concentrate imports will continue to be an important part of China maintaining its downstream processing capacity, but measures implemented in early-2019, including restrictions on imports from Myanmar and the formation of a Shenghe Resources-China National Nuclear Corporation joint venture for the import, processing and trading of rare earth materials with elevated radionuclides within China, is expected to bring material from these sources back to a more level playing field with locally sourced legal concentrates, leading to supply becoming less reactive.

U.S. POLICY MAKERS AND THE TRADE WAR IMPACTS THE SCENE

In July 2018 the U.S. applied a 10% tariff on a range of imported goods from China including rare earth compounds, metals and alloys. To reduce its reliance on foreign-sourced critical minerals and materials, U.S. legislators passed the *John S. McCain National Defense Authorization Act* into law in August 2018. Section 871 of this bill prevents the purchase of rare earth (NdFeB and SmCo) magnets

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from prohibited countries, including China, by the U.S. Department of Defense. This move is widely regarded as a significant boost for non-China magnet and NdPr producers and advanced stage development companies, with the potential to support higher NdPr prices as the market adjusts to a possible shortfall in sanctioned magnet production.

The U.S. is one of the largest importers of rare earths which are critical for the North American supply chain, U.S. defense applications, and industrial applications including EV motors and wind turbines. It will require time and investment before the tariff and *Defence Authorization Act* can achieve the objective of developing a non-China NdPr and NdFeB magnet supply chain.

Following a decline in prices during February-April 2019, which in part was attributed to a reduction in the Chinese VAT on rare earths from 16% to 13%, NdPr oxide and other rare earth prices rose sharply by more than 40% in May-June 2019 to US\$54/kg on reports that China was considering banning the export of rare earths to the U.S. as trade tensions continued between the two countries. A visit by the Chinese President to a leading Chinese NdFeB magnet manufacturing factory in mid-May brought increased focus to the possibility of a global supply shut down and its impact on the rest of the world's high-tech industry.

Despite these shorter-term political manoeuvrings, the fundamental drivers for NdPr oxide demand for use in NdFeB permanent magnets remain positive into the future.

NdFeB – THE PREFERRED ALTERNATIVE IN EV DRIVE TRAINS

In 2018, 93% of new EVs were powered by traction motors containing NdFeB magnets (permanent magnet motors - PMMs). These motors are more power dense than any other type of electric motor delivering more power per unit of mass and volume and offering greater efficiency than alternatives across all driving conditions. The main alternative to PMMs in EVs are induction motors. Induction motors contain no permanent magnets and are cheaper. However, whereas PMM componentry is exposed to the rare earth mineral market, induction motors come at the cost of reduced efficiency, and it is possible to quantify the magnitude of each risk in terms of cost per average sized motor.

In 2017, the global sales-weighted-average PMM power output was 71 kW and contained 1.35 kilograms of NdFeB magnets, 32% of which was NdPr oxide. At an NdPr oxide market price of US\$40/kg this represents US\$17.20 in value. With the motor costing in the vicinity of US\$600¹, the NdPr component represents approximately 3% of value. The cost impact on the motor of doubling the NdPr oxide market price is minor.

The alternative induction motor is cheaper² but is also less efficient³, meaning that a larger lithium-ion battery is required to match the mileage achievable by a similar sized PMM. For a modest sized battery pack of 40 kWh, this would equate to an additional 6 kWh in capacity. With battery pack costs averaging US\$176/kWh in 2018⁴, this adds an additional US\$1,056 to each induction motor-powered vehicle.

¹ UBS, "UBS Evidence Lab Electric Car Teardown – Disruption Ahead?", www.ubs.com/investmentresearch, May 2017.

² Parker Hannifin, "Comparing AC Induction with Permanent Magnet motors in hybrid vehicles and the impact on the value proposition", 2013.

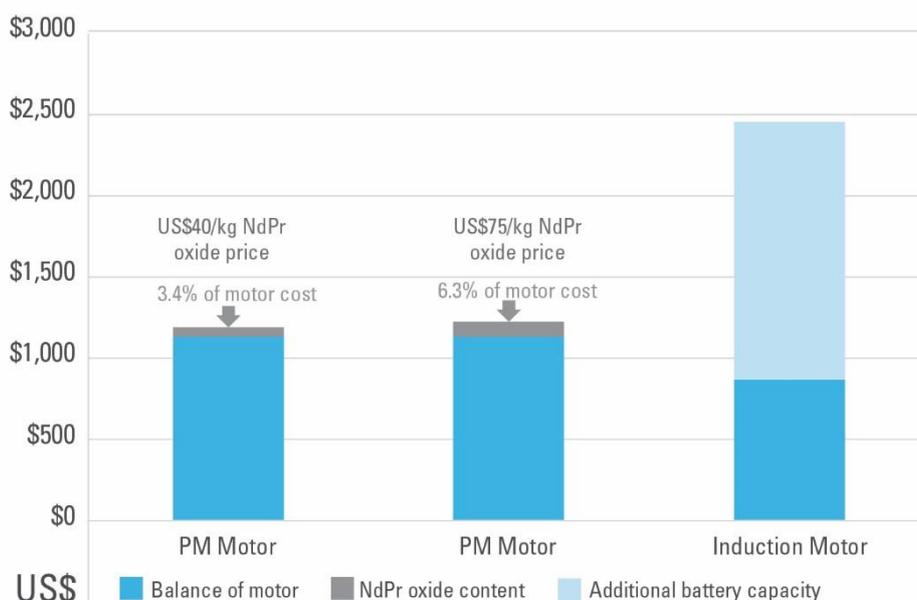
³ Adamas Intelligence, "Spotlight on Dysprosium", www.adamasintel.com/spotlight-on-dysprosium/, April 2018.

⁴ Bloomberg New Energy Finance, "A Behind the Scenes Take on Lithium-ion Battery Prices", March 2019.

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This analysis shows that the key economic driver for an EV is the cost of the battery. The cost benefit of smaller battery packs afforded by PMMs far outweighs any exposure to fluctuations in NdPr oxide price. NdPr market forecasts are highly unlikely to have fully accounted for the loss of energy efficiency and flow-on effect to other components in assessing NdPr substitution. EV industry participants are now beginning to put significant resources into supply chain mapping with greater emphasis being placed on energy efficiency.

Average Electric Vehicle Motor Costs



MARKET SUPPORT EVIDENT IN SUCCESSFUL CAPITAL RAISINGS

The Company completed three capital raisings during the year, with solid levels of support evident from shareholders and new investors:

- August-September 2018: institutional and retail entitlement offers which raised a total of \$4.3 million at \$0.08 per share;
- December 2018: share purchase plan and top-up placement to sophisticated and professional investors which raised \$4.04 million at \$0.044 per share; and
- April 2019: share placement to Australian and global institutions and sophisticated investors which raised \$3 million at \$0.05 per share.

In June 2019 the Company launched and in July 2019 completed a fully underwritten non-renounceable (7 for 20) entitlement offer raising total funds of \$23.2 million at \$0.085 per share. On issue of all shares under the offer, commodities trader Noble Group Holding's wholly owned subsidiary Talaxis Limited emerged as a substantial and strategic shareholder with 5.23% of total issued capital. All raisings were aimed at progressing the development of the Nolans NdPr Project, with an emphasis on advancing key feasibility, flowsheet piloting, and execution readiness programs that were identified at that point in time.

In addition, the Company received \$2.1 million from the Australian Government in October 2018 as a refundable tax offset for eligible research and development (R&D) expenditure.

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EXPLORATION

BONYA JOINT VENTURE (TUNGSTEN, COPPER, VANADIUM)

Arafura holds a 60% interest in the Bonya Joint Venture (JV) over ELs 29701 and 32167, located 280 kilometres north-east of Alice Springs. Thor Mining PLC (Thor) holds a 40% interest and is the operator and manager of the JV.

In April 2019, the JV completed a first-pass reverse circulation (RC) drilling and costeaning program (total 2,318 metres) at five tungsten prospects on EL 29701, to assess the lateral and depth extent of outcropping scheelite mineralization. The program delivered significant widths of tungsten and copper mineralisation at shallow depths at the White Violet and Samarkand prospects, including:

- White Violet hole 19RC021: 12m @ 0.67% WO₃ from 46m;
- White Violet hole 19RC022: 29m @ 0.70% WO₃ from 81m, including 13m at 1.13% WO₃ from 91m; and
- Samarkand hole 19RC030: 12m @ 0.77% Cu from 22m; 7m @ 1.23% Cu from 37m; 9m @ 0.74% WO₃ from 64m.

The JV has planned a follow-up RC drilling program at White Violet and Samarkand with the aim of delineating Mineral Resources as potential mill feed to Thor's wholly owned Molyhil tungsten-molybdenum development project, located 25 kilometres west of EL 29701.

At EL 32671, the JV has developed an information memorandum highlighting the development potential of magnetite-hosted vanadium mineralisation drilled by Arafura during 2006-2008, in order to draw out investor interest in the opportunity.

COMPLIANCE STATEMENTS

NOLANS MINERAL RESOURCES

The Mineral Resources estimate referred to in this report are contained in Arafura's ASX announcement dated 7 June 2017 (Detailed Resource Assessment Completed) available to view at www.asx.com.au, and was completed in accordance with the guidelines of the JORC Code (2012). Arafura confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and that all material assumptions and technical parameters underpinning the Mineral Resources estimate in the relevant announcement continue to apply and have not materially changed. Arafura confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

OPERATIONS REPORT

Statement of Mineral Resources for the Nolans Bore Rare Earth Deposit Announced 7 June 2017				
Classification	Tonnes (Mt)	TREO (%)	P ₂ O ₅ (%)	NdPr Enrichment (%)
Measured	4.9	3.2	13	26.1
Indicated	30	2.7	12	26.4
Inferred	21	2.3	10	26.5
Total	56	2.6	11	26.4

Note: Numbers may not compute due to rounding. 1.0% TREO lower cut-off grade. "NdPr Enrichment" is the proportion of TREO comprising neodymium oxide Nd₂O₃ and praseodymium oxide Pr₆O₁₁.

NOLANS ORE RESERVES

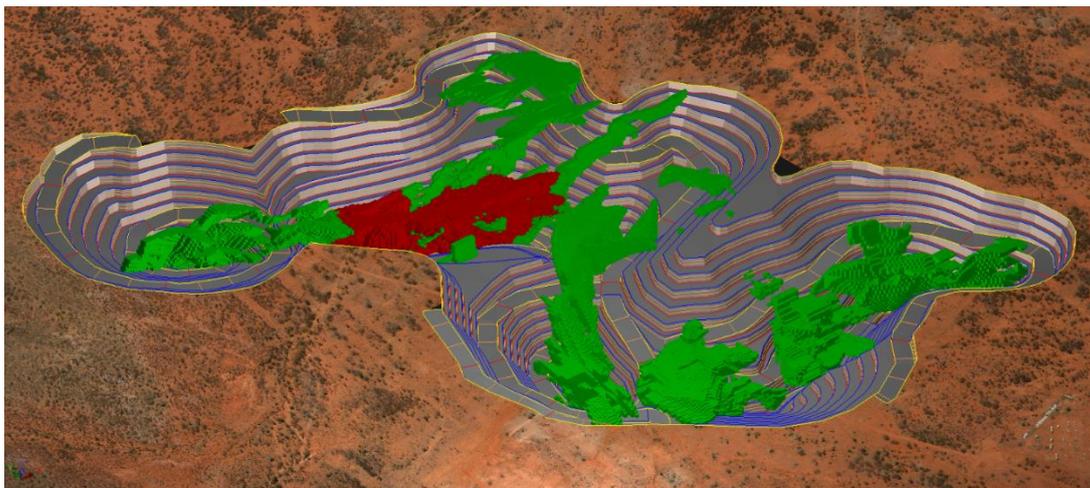
The Ore Reserves estimate referred to in this report is contained in Arafura's ASX announcement dated 7 February 2019 (Nolans Project Definitive Feasibility Study) available to view at www.asx.com.au, and was completed in accordance with the guidelines of the JORC Code (2012). Arafura confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and that all material assumptions and technical parameters underpinning the Ore Reserves estimate in the relevant announcement continue to apply and have not materially changed. Arafura confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

Statement of Ore Reserves for the Nolans Project Announced 7 February 2019				
Classification	Tonnes (Mt)	TREO (%)	P ₂ O ₅ (%)	NdPr Enrichment (%)
Proved	4.3	3.1	13	26.1
Probable	14.9	2.9	13	26.5
Total	19.2	3.0	13	26.4

Note: Numbers may not compute due to rounding. "NdPr Enrichment" is the proportion of TREO comprising neodymium oxide Nd₂O₃ and praseodymium oxide Pr₆O₁₁.

OPERATIONS REPORT

Nolans Project Ore Reserves Proved – red; Probable – green



PRODUCTION TARGETS AND FORECAST FINANCIAL INFORMATION

The information in this report that relates to production targets and forecast financial information derived from a production target is extracted from Arafura's ASX announcement dated 7 February 2019 (Nolans Project Definitive Feasibility Study) available to view at www.asx.com.au. Arafura confirms that all material assumptions underpinning the production targets and forecast financial information derived from production targets set out in the announcement released on 7 February 2019 continue to apply and have not materially changed.

BONYA COMPETENT PERSONS STATEMENT

The information in this Report that relates to Exploration Results is based on information compiled by Mr Richard Bradey, a Competent Person who holds a BSc in Applied Geology and an MSc in Natural Resource Management and who is a Member of the Australasian Institute of Mining and Metallurgy (MAusIMM). Mr Bradey is an employee of Thor Mining PLC. Mr Bradey has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code (2012)). Mr Bradey consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

FORWARD LOOKING STATEMENTS

This annual report includes forward-looking statements. These statements relate to the Company's expectations, beliefs, intentions or strategies regarding the future. These statements can be identified by the use of words like "will", "progress", "anticipate", "intend", "expect", "may", "seek", "towards", "enable" and similar words or expressions containing same.

The forward-looking statements reflect the Company's views and assumptions with respect to future events as of the date of this annual report and are subject to a variety of unpredictable risks, uncertainties, and other unknowns. Actual and future results and trends could differ materially from those set forth in such statements due to various factors, many of which are beyond our ability to

OPERATIONS REPORT

control or predict. Given these uncertainties, no one should place undue reliance on any forward looking statements attributable to the Company, or any of its affiliates or persons acting on its behalf.

The Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Neither the Company nor any other person, gives any representation, warranty, assurance, nor will guarantee that the occurrence of the events expressed or implied in any forward-looking statement will actually occur. To the maximum extent permitted by law, the Company and each of its advisors, affiliates, related bodies corporate, directors, officers, partners, employees and agents disclaim any responsibility for the accuracy or completeness of any forward-looking statements whether as a result of new information, future events or results or otherwise.

GLOSSARY

CAGR	Compound annual growth rate
DFS	Definitive feasibility study
EIS	Environmental impact statement
EL	Exploration licence
EV	Electric vehicle
FOB	Free on board
FY	Financial year
HEV	Hybrid electric vehicle
HPC	High phosphate concentrate
ICE	Internal combustion engine (vehicle)
MMP	Mine Management Plan
NdFeB	Neodymium-Iron-Boron (magnet)
NdPr	Neodymium-Praseodymium (rare earths)
NTEPA	Northern Territory Environment Protection Agency
OEM	Original equipment manufacturer
P ₂ O ₅	Phosphate
R&D	Research and development
SPP	Share Purchase Plan
TREO	Total rare earth oxide

DIRECTORS' REPORT

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 2019.

Directors

The following persons were Directors of Arafura Resources Limited during the financial year or up to the date of this report:

- M. Southey
- G. Lockyer
- C. Tonkin
- Q. Zhang
- T. Grose⁽¹⁾
- I. Kowalick⁽²⁾

⁽¹⁾ Mr Grose resigned on the 21st of November 2018

⁽²⁾ Mr Kowalick resigned on the 14th of February 2019

Principal activities

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

- (a) Nolans Project engineering studies and Pilot Programs;
- (b) Mining and associated infrastructure, social, environmental and definitive 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

Arafura Resources Limited incurred a group loss of \$5,854,157 for the 30 June 2019 period. The loss is slightly higher than the 2018 loss due to increased share based payments in the year as a result of the grant of options and performance rights in July 2018 and September 2018 respectively as well as increased overall expenditure due to heightened activities for the completion of the DFS.

Arafura has had a successful 2019 financial year. The Company was able to raise \$11.3 million (before costs) through the previously mentioned capital raisings. All the funds raised have assisted Arafura in the completion and release of the DFS, continuation of negotiations for the mining agreement with

DIRECTORS' REPORT

Native Title holders, interrelated programs to secure offtake agreements as well as general working capital.

Significant changes in the state of affairs

- Arafura has completed Phase 4, 5 and 6 of the piloting program which includes Acid Bake and Rare Earth Processing. The Separation Pilot Program is planned for the next year.
- Arafura announced on the 7th of November 2018 that the separation pilot which hosts the final stages of rare earth processing will be built at the Nolans site near Alice Springs, Northern Territory. Arafura had previously planned for the Separation Plant to be located offshore. However, process and configuration efficiencies identified through the project's Definitive Feasibility Study (DFS) and Arafura's extensive testwork and flowsheet piloting programs have made the relocation of the Separation Plant to the Nolans site more feasible. The decision will also mitigate some of the project's operational risks and provides customers with improved product traceability and waste management certainty.
- Arafura signed a Memorandum of Understanding (MoU) with JingCi Material Science Co., Ltd (JingCi) for the supply of NdPr Oxide. The non-binding MoU envisages the long-term supply to JingCi of up to 900 tonnes per annum of NdPr oxide, a quarter of Nolans forecast annual output of 3,600 tonnes, and provides a framework for negotiating a final offtake agreement.
- Arafura completed and released the DFS on the 7th of February 2019 with positive results of increased annual NdPr oxide production of 21%.
- The Company received a R&D tax rebate during the 2018-2019 year. The incentive is a jointly administered program between AusIndustry and the Australian Taxation Office. The Company has received over \$37 million from R&D rebates since the incentive began.
- Arafura is accelerating the planning and implementation of execution readiness activities. Wave International Pty Ltd provided Arafura with engineering support for the Nolans DFS and has subsequently been appointed to assist with project delivery services for the execution readiness phase.
- The Bonya Joint Venture (Arafura 60% and Thor Mining Plc 40%) successfully completed Phase 1 of the drill program in the year. Steps are being taken to finalise Phase 2 of the program. This program is scheduled for completion in the early half of the 2020 financial year.

Matters subsequent to the end of the financial year

In June 2019, the Company announced a fully underwritten non-renounceable entitlement offer to raise \$23.2 million (before costs). This was completed on the 22nd of July 2019 with the final funds being received. The issue of 273,491,090 shares at \$0.085 was completed resulting in the new total number of shares on issue being 1,054,894,204. Arafura intends to use the funds raised under the entitlement offer:

- To progress further development of the Nolans NdPr Project including Project execution readiness to allow award of key design and project management contracts, commencement of front end engineering design work, completion of early contractor involvement phase and the delivery and tender of long lead procurement items and early works construction contracts;

DIRECTORS' REPORT

- for an exploration and metallurgical program aimed at potentially increasing the Nolans Project mine life; and
- for ongoing working capital.

This offer has introduced a sub-underwriter Talaxis Limited, a wholly-owned subsidiary of Noble Group Holdings Limited. Talaxis, through its investment in Arafura is looking to align with existing shareholders to minimise dilution and preserve shareholder value. Additionally, Talaxis seeks to play a significant part in bringing the Nolans project production to various destination markets throughout the world. Talaxis currently hold 5.23% of the total issued capital.

No other matter or circumstance has arisen since 30 June 2019 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 completion of the DFS in February 2019 was a significant project milestone, however production of final designs and detailed engineering to enable construction to commence as early as possible after project commitment represents a substantial body of work. Pre-execution readiness activities have continued through 2019 to enable efficient transition from feasibility to front-end engineering and design (FEED), and procurement and construction. The Company is now looking to bring forward project commitment and FEED with an aim of facilitating commencement of procurement and early works construction activities shortly after production commitment and availability of project funding.

Environmental regulation

The consolidated entity is subject to and is compliant with all aspects of environmental regulation of its exploration and mining activities. The Directors are not aware of any environmental law that is not being complied with.

Greenhouse gas and energy data reporting requirements

The Directors have considered compliance with the *National Greenhouse and Energy Reporting Act 2007* which requires entities to report annual greenhouse gas emissions and energy use. The Directors have assessed that there are no current reporting requirements, but Arafura may be required to do so in the future.

DIRECTORS' REPORT

Information on Directors

Mark Southey

Non-Executive Chairman

Qualifications: BSc (Hons) in Engineering with Business Studies, an MBA from the University of Sydney Business School and is a Member of the Australian Institute of Company Directors

Mr Southey has extensive global experience in the industrial and natural resources sectors covering all aspects of asset management, maintenance, design and engineering, and major capital project development and execution. He is well versed in public company board and institutional investor engagement and has a background in both senior operational and financial roles.

Mr Southey has previously held senior executive positions with Honeywell and ABB both in Australia and internationally, and more recently was part of the global executive leadership team within WorleyParsons, a leader in the engineering, procurement and construction of projects in the energy and resources sector where he held the position of Group Managing Director for the Minerals, Metals and Chemicals Sector. Mr Southey is also a non-executive director of Fleetwood Corporation (ASX: FWD) and an advisory board member for Gas Cleaning Technologies LLC (Dallas).

Mr Southey was appointed as the Chairman of Arafura Resources Limited on the 14th of February 2019.

First Appointed

30 January 2018

Other current Directorships

Fleetwood Corporation (ASX:FWD) – Independent Non-Executive Director

Former Directorships in the last 3 years

None

Special responsibilities

Chairman of the Nomination and Remuneration Committee

Member of the Audit and Risk Committee

Interests in shares, performance rights and options

250,000 ordinary shares in Arafura Resources Limited (Direct)

DIRECTORS' REPORT

Gavin Lockyer

Managing Director and Chief Executive Officer

Qualifications: BBus, ACA, FTA

Gavin graduated with a Bachelor of Business in Accounting and Finance in Western Australia in 1987 and has subsequently become a member of both the Institute of Chartered Accountants and the Finance & Treasury Association of Australia.

He joined Arafura in 2006 as Chief Financial Officer and Company Secretary after previously holding several senior finance and treasury positions in global mining companies including Newcrest and Newmont following a successful international investment banking career in Australia and London.

Gavin's diverse, global experience has provided management and leadership opportunities in a range of disciplines including; Accounting, Financial & Investment Banking, Major Resource Development & Operations, and Global Bank Treasuries. Over the past 20 years his career has exposed him to business practices in North America, Europe, and Australasia.

First Appointed

23 July 2013

Other current Directorships

None.

Former Directorships in the last 3 years

None.

Special Responsibilities

None.

Interests in shares, performance rights and options

4,750,000 unlisted options in Arafura Resources Limited (Indirect)

1,298,315 ordinary shares in Arafura Resources Limited (Indirect)

3,000,000 performance rights issued at the 2018 AGM

DIRECTORS' REPORT

Chris Tonkin

Non-Executive Director

Qualifications: BSc (Hons) Metallurgy and Chemistry, BA Economics and Politics, MBA

Chris Tonkin has over 36 years' experience as a senior business executive with a broad industry background in business generation, management, and strategy development. 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 he was Head of Natural Resources Project Finance for many years, leading a very successful team of project financiers.

In early 2012, Chris was appointed Chief Executive Officer and Managing Director of Arafura Resources Limited and assisted the Company through a difficult period before stepping down to concentrate on his project advisory activities as Executive Director of Capital Advisory Services Pty Ltd and Managing Director of Catalyst Capital Solutions Pty Ltd.

Chris is a Graduate Member of the Australian Institute of Company Directors and Chairman of Lakes Oil NL. He is Chairman of Arafura Resources' Audit and Risk Committee and a Member of its Nomination and Remuneration Committee.

First Appointed

1 January 2011.

Other current Directorships

Lakes Oil N.L. - Chairman

Former Directorships in the last 3 years

None.

Special Responsibilities

Chairman of the Audit and Risk Committee.

Member of the Nomination and Remuneration Committee.

Interests in shares, performance rights and options

238,637 ordinary shares in Arafura Resources Limited (Direct)

DIRECTORS' REPORT

Quansheng Zhang

Non-Executive Director

Qualifications: Doctoral degree in Engineering and Masters degree in Geophysical Prospecting

Quansheng Zhang is based in Nanjing in the Peoples Republic of China and is the General Manager of Hong Kong East China Non-Ferrous Mineral Resources Co Ltd (HKECE). Mr. Zhang has over 30 years of mineral prospecting and exploration experience, and expertise in mineral resource surveys and geophysics.

First Appointed

18 November 2016.

Other current Directorships

None.

Former Directorships in the last 3 years

None.

Special Responsibilities

None.

Interests in shares, performance rights and options

None.

DIRECTORS' REPORT

Ian Kowalick

Former Non-Executive Chairman

Qualifications: BSc (Hons), BEc

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 was previously the Chairman of the South Australian Forestry Corporation Board and board member of the Northern Territory Power and Water Corporation.

He was the Chairman of Arafura's Nomination and Remuneration Committee, and a Member of the Audit and Risk Committee. Ian retired from the Board on the 14th of February 2019.

First Appointed

19 December 2002.

Other current Directorships

None.

Former Directorships in the last 3 years

Central Australia Phosphate Limited.

SA Forestry Corporation.

NT Power and Water Corporation.

Medvet Science Pty Ltd.

Special Responsibilities

Former Chairman of the Board.

Former Chairman of the Nomination and Remuneration Committee.

Former Member of the Audit and Risk Committee.

Interests in shares, performance rights and options

583,759 ordinary shares in Arafura Resources Limited (Indirect)

DIRECTORS' REPORT

Terry Grose

Former Non-Executive Director

Qualifications: BEc, MBA

Terry Grose has a strong commercial background gained over 30 years as a senior business executive, consultant, and director, in Australia and internationally.

He spent several years in merchant banking before joining Wesfarmers Limited in 1985 as its first Business Development Manager. During the ensuing decade, he held various senior management positions in Wesfarmers' corporate office, its fertiliser & chemicals division and its coal mining division. For several years he was General Manager International Business Development.

Terry worked in Hong Kong for over a decade, initially in a senior financial role before establishing his own business, Grose International, a commercial and financial consultancy firm with clients throughout Asia.

Since returning to Australia in 2008 he has worked as a consultant specialising in strategic planning and financial management and as a director of several companies. Terry is a Fellow of the Australian Institute of Company Directors and is currently a director of Yirra Yaakin Aboriginal Corporation, Rolltrak Spares Pty Ltd, Desert Support Services Pty Ltd and Central Desert Native Title Services Limited.

He was Chairman of Arafura's Audit & Risk Committee and a member of the Remuneration & Nomination Committee. Terry retired from the Board on the 21st of November 2018.

First Appointed

21 February 2013.

Other current Directorships

None.

Former Directorships in the last 3 years

None.

Special Responsibilities

Former Chairman of the Audit and Risk Committee.

Former Member of the Nomination and Remuneration Committee.

Interests in shares, performance rights and options

129,168 ordinary shares in Arafura Resources Limited (Direct)

DIRECTORS' REPORT

Peter Sherrington

Company Secretary

Qualifications: B.Bus, CA.

Peter holds a bachelor of business in accounting and finance and is a member of the Institute of Chartered Accountants.

He commenced employment with Arafura in 2008 as Commercial Manager and was appointed Chief Financial Officer in July 2013. He has in excess of 20 years' experience in professional and corporate roles in Perth. Prior to working with Arafura he held senior finance and commercial positions with a number of ASX and public unlisted entities. He has also worked in public practice for 10 years in the areas of business services and corporate advisory.

Meeting of Directors

The number of meetings of the Company's Board of Directors, the number of meetings each Board Committee held and the number of meetings attended by each Director throughout the year ended 30 June 2019 were:

Director	Board meetings		Committee Meetings			
	Full meetings of Directors held	Full meetings of Directors attended	Audit & Risk Committee meetings held	Audit & Risk Committee meetings attended	Remuneration & Nomination Committee held	Remuneration & Nomination Committee attended
Mark Southey	16	16	4	4	3	3**
Gavin Lockyer	16	16	-	-	-	-
Chris Tonkin	16	16	4	4	4	4
Quansheng Zhang	16	15	-	-	-	-
Terry Grose*	8	8	4	2	2	2
Ian Kowalick*	11	11	4	2	2	2

* Terry Grose and Ian Kowalick retired from the Board within the period. They attended all meetings prior to their retirement.

** Mark Southey was appointed to the committee after the first meeting for the year ended 30 June 2019. He attended all meetings subsequent to his appointment.

As at 30 June 2019 the Committees of Arafura are comprised of the following:

- Mr Southey is Chairman of the Nomination and Remuneration Committee and a member of the Audit and Risk Committee.
- Mr Tonkin is Chairman of the Audit and Risk Committee and a member of the Nomination and Remuneration Committee.

DIRECTORS' REPORT

Remuneration Report (audited)

Dear Shareholder,

On behalf of the Nomination and Remuneration Committee I am pleased to present the Remuneration Report for the period ended 30 June 2019.

The Company has worked hard over the financial year to advance the Nolans Project and with this in mind, the Nomination and Remuneration Committee have endeavoured to align executive remuneration with shareholder value.

For Non-Executive Directors there have been no changes to fees since 2011. For executives there have been no changes in fixed base pay and benefits since 2013 except for limited instances where the role is new or there has been a substantial change in responsibilities.

For Executives long term incentive structures through participation in the Employee Share Option Plan and share rights has been aligned with the delivery of key milestones for the Nolans Project, these include:

- Completion of the Nolans Project DFS
- Grant of a Mining Lease
- Project funding for the Nolans Project

Non-Executive Director remuneration consists of Base Fees. No committee fees, short term incentives or long-term incentives were paid or provided to Non-Executive Directors.

We believe the report will assist you in understanding the objectives targeted through the remuneration strategy, should you have any questions we would be happy to discuss these with you.

Yours Sincerely



Mark Southey

Chairman

Nomination and Remuneration Committee

DIRECTORS' REPORT

A list of Directors and Key Management Personnel of Arafura Resources Ltd is detailed below:

Non-Executive and Executive Directors:

- Mark Southey - Chairman
- Gavin Lockyer – Managing Director and Chief Executive Officer
- Chris Tonkin
- Quansheng Zhang
- Terry Grose ⁽¹⁾
- Ian Kowalick ⁽²⁾

Other Key Management Personnel

- Peter Sherrington – Chief Financial Officer and Company Secretary
- Richard Brescianini – General Manager of Exploration and Development
- Brian Fowler – General Manager of Northern Territory and Sustainability
- Lloyd Kaiser – General Manager of Sales, Marketing and Technology Development
- Stewart Watkins – General Manager of Projects

⁽¹⁾ Mr Grose retired on the 21st November 2018.

⁽²⁾ Mr Kowalick retired on the 14th February 2019.

Remuneration Governance

The Nomination and Remuneration Committee is a Committee of the Board. It is primarily responsible for making recommendations to the Board on:

- the over-arching executive remuneration framework
- operation of the incentive plans which apply to the executive team, including key performance indicators and possible performance hurdles
- remuneration levels of Executive Directors and other key management personnel, and
- Non-Executive Directors fees.

Its objective is to ensure that remuneration policies and structures are fair and competitive and aligned with the long-term interests of the Company and its shareholders. Further information is provided within the remuneration report.

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*.

DIRECTORS' REPORT

A Principles used to determine the nature and amount of remuneration

For the 2019 financial year, all compensation arrangements for Directors and the Group's Executives were determined at Board level after taking into account the competitive rates prevailing in the market place.

Remuneration levels of the Directors and the Group's Executives were 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 were determined by the Board within the amount approved by shareholders. The Board undertakes an annual review of its performance. No bonuses were paid to Non-Executive Directors.

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 that are made on, and the responsibilities of, the Directors. Non-Executive Directors' fees and payments were reviewed by the Nomination and Remuneration Committee. The Committee considered market conditions and its remuneration from the prior year and recommended that there be no changes to the remuneration of Non-Executive Directors. The Chairman's fee is determined independently to the fees of Non-Executive Directors based on comparative roles in the external market.

Non-Executive Directors' fees are determined within an aggregate Directors' fee pool limit, which is periodically recommended for approval by shareholders and currently stands at \$1,000,000 per annum.

Base Fees	Year ended 30 June 2019	Year ended 30 June 2018
Chairman	\$151,200	\$151,200
Other Non-Executive Directors	\$78,400	\$78,400
Additional Fees		
Audit & Risk Committee Member or Chairman	*	*
Nomination & Remuneration Committee Member or Chairman	*	*

* Directors are 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 2018.

DIRECTORS' REPORT

The above fees are per annum and include superannuation.

The Non-Executive Directors do not receive retirement allowances or performance-based bonuses.

There is no direct link between remuneration paid to any Non-Executive Directors and corporate performance as Arafura expects Non-Executive Directors to carry out their duties in accordance with the relative bodies to the best of their ability. There is no termination, retirement or accumulating and vesting annual leave benefits for Non-Executive Directors.

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 (e.g. termination payments)

Base pay and benefits

The base pay (otherwise known as Total Fixed Remuneration "TFR") 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. The Board considered prevailing market conditions and the Company's strategy going forward. 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.

Managing Director and Chief Executive Officer, Mr. Gavin Lockyer's contract remained unchanged for the 2019 financial year.

Short-term performance incentives

Short-term incentives are used to encourage and reward the 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.

The Nomination and Remuneration Committee is responsible for assessing whether Key Performance Indicators ("KPI's") are met. The Committee considers market rates of salaries for levels across the Company, which have been based on industry data provided by a range of employment agencies.

DIRECTORS' REPORT

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 or performance rights issued either under the terms and conditions of the Group's Employee Share Option Plan, Performance Rights 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 16 November 2017, the Board has absolute discretion to:

- invite eligible persons to apply for a specified number of options;
- set performance criteria (typically 1 year service period); 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.

Under the Company's Performance Rights Plan approved by shareholders at the general meeting held on 16 November 2017, the Board has absolute discretion to:

- invite eligible persons to apply for a specified number of performance rights;
- set performance conditions attaching to the rights (typically milestones); and
- require no payment for the grant of a right and no payment on vesting or exercise of a right
- set expiry dates for the rights.

No bonus payments other than as indicated in the remuneration table on page 35 were paid during the reporting period.

Other transactions with key management personnel

In the 2018 and 2019 financial year, there were no transactions with individuals at any time.

Use of remuneration consultants

The Nomination and Remuneration Committee utilised BDO Reward (WA) Pty Ltd (BDO Reward) in the year ended 30 June 2019. BDO Reward was paid \$8,250 for the finalisation of the Reward Strategy and Policy Framework Project started in the 30 June 2018 financial year.

DIRECTORS' REPORT

Relationship between remuneration and Company performance

Executives receive their TFR which is not linked to Company performance, however they can also receive short and long-term incentives which are used to encourage and reward the performance of Executive Directors, officers and senior management for their role in achieving corporate objectives that are directly linked to the creation of shareholder wealth.

For the year ended 30 June 2019, no performance or incentive KPI's were set for Executives or the Managing Director and no bonuses were received. The Executives were issued with options on 31 July 2018 and performance rights on 30 September 2018 in line with the Company's Option Plan. Current option and performance rights interests are shown on pages 39 and 41 respectively.

B ***Details of remuneration***

Details on the remuneration of the Directors, 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.

For the 2019 financial year, the key management personnel include the Directors of Arafura Resources Limited and those Executives that report directly to the Managing Director being:

- P. Sherrington – *Chief Financial Officer and Company Secretary*
- R. Brescianini – *General Manager Exploration and Development*
- B. Fowler – *General Manager of Northern Territory & Sustainability*
- L. Kaiser – *General Manager of Sales, Marketing and Technology Development*
- S. Watkins – *General Manager of Projects*

Voting and comments made at the Company's 2018 Annual General Meeting

Arafura Resources Ltd received more than 95% of "for" votes on its remuneration report for the 2018 financial year.

The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

DIRECTORS' REPORT

2019 Name	Short-term benefits			Post-employment benefits	Long-term benefits		Share-based payments		Total \$
	Cash salary and fees \$	Bonus \$	Non-monetary benefits \$	Super-annuation \$	Long service leave \$	Termination benefits \$	Options and Performance Rights \$	% share based payments	
Non-Executive Directors									
M Southey	96,530	-	-	9,170	-	-	-	-	105,700
C Tonkin	71,598	-	-	6,802	-	-	-	-	78,400
Z Quansheng	78,400	-	-	-	-	-	-	-	78,400
I Kowalick ⁽¹⁾	86,301	-	-	8,199	-	-	-	-	94,500
T Grose ⁽²⁾	29,833	-	-	2,834	-	-	-	-	32,667
Executive Directors									
G Lockyer	401,100	-	1,987	25,000	21,308	-	83,523	15.7%	532,918
Other key management personnel (Group)									
P Sherrington	316,100	-	1,998	25,000	763	-	85,545	19.9%	429,406
R Brescianini	276,100	-	1,975	25,000	(9,649)	-	73,993	20.1%	367,419
B Fowler	257,626	-	-	24,474	17,541	-	70,167	19.0%	369,808
L Kaiser	261,986	-	1,926	24,889	4,781	-	71,443	19.6%	365,025
S Watkins	264,973	-	-	24,993	4,904	-	101,250	25.6%	396,120
Total	2,140,547	-	7,886	176,361	39,648	-	485,921		2,850,363

(1) Mr Kowalick retired on the 14th February 2019.

(2) Mr Grose retired on the 21st November 2018.

DIRECTORS' REPORT

2018 Name	Short-term benefits			Post-employment benefits	Long-term benefits		Share-based payments		Total \$
	Cash salary and fees \$	Bonus \$	Non-monetary benefits \$	Super-annuation \$	Long service leave \$	Termination benefits \$	Options and Performance Rights \$	% share based payments	
Non-Executive Directors									
I Kowalick	138,082	-	-	13,118	-	-	-	-	151,200
T Grose	70,000	-	-	8,400	-	-	-	-	78,400
C Tonkin	70,000	-	-	8,400	-	-	-	-	78,400
Q Zhang	78,400	-	-	-	-	-	-	-	78,400
M Southey ⁽¹⁾	30,383	-	-	2,886	-	-	-	-	33,269
Executive Directors									
G Lockyer	401,100	-	2,426	25,000	(7,377)	-	2,334	0.55%	423,483
Other key management personnel (Group)									
P Sherrington	315,717	-	2,426	25,000	5,686	-	2,855	0.81%	351,684
R Brescianini	276,100	-	2,426	25,000	(1,472)	-	2,855	0.94%	304,909
B Fowler	257,100	-	-	25,000	1,738	-	2,855	1.00%	286,693
L Kaiser	261,986	-	2,426	24,889	11,209	-	1,428	0.47%	301,938
S Watkins ⁽²⁾	72,445	-	-	6,882	1,293	-	-	-	80,620
Total	1,971,313	-	9,704	164,575	11,077	-	12,327		2,168,996

⁽¹⁾ Mr Southey was appointed on the 30th January 2018.

⁽²⁾ Mr Stewart Watkins was appointed on the 19th March 2018.

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 other key management personnel are also formalised in service agreements. Each of these agreements provide for the provision of performance-related cash bonuses and other benefits including participation where

DIRECTORS' REPORT

eligible in the Arafura Share Option Plan and Performance Rights Plan. Other major provisions of the agreements relating to remuneration are set out below for the 2019 financial year:

G Lockyer, *Managing Director*

- No term of agreement.
- Base salary inclusive of superannuation, for the year ended 30 June 2019 of \$426,100.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to six months of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to six months of the base salary.

P Sherrington, *Chief Financial Officer and Company Secretary*

- No term of agreement.
- Base salary inclusive of superannuation, for the year ended 30 June 2019 of \$341,100.
- 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.

R Brescianini, *General Manager Strategic Development and Exploration*

- No term of agreement.
- Base salary inclusive of superannuation, for the year ended 30 June 2019 of \$301,100.
- 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.

B Fowler, *General Manager of Northern Territory and Sustainability.*

- No term of agreement.
- Base salary inclusive of superannuation for the year ended 30 June 2019 of \$282,100.
- 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.

L Kaiser, *General Manager of Sales, Marketing and Technology Development*

- No term of agreement.
- Base salary inclusive of superannuation for the year ended 30 June 2019 of \$286,875.
- 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.

DIRECTORS' REPORT

S Watkins, *General Manager of Projects*

- No term of agreement.
- Base salary inclusive of superannuation for the year ended 30 June 2019 of \$289,966.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to one month of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to one month of the base salary.

D *Share-based compensation*

Employee share scheme - Options

Options over shares in Arafura Resources Limited are granted by the Board under the Arafura Resources Limited Share Option Plan which was last approved by shareholders at the 2017 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 current or future reporting periods are as follows:

Grant date	Date vested and exercisable	Expiry date	Exercise price	Model option value	% Vested
30-Sep-14	30-Sep-15	30-Sep-18	\$0.105	\$0.018	100%
30-Sep-14	30-Sep-16	30-Sep-18	\$0.105	\$0.022	100%
30-Sep-14	30-Sep-17	30-Sep-18	\$0.105	\$0.025	100%
20-Nov-14	20-Nov-15	20-Nov-18	\$0.105	\$0.016	100%
20-Nov-14	20-Nov-16	20-Nov-18	\$0.105	\$0.017	100%
20-Nov-14	20-Nov-17	20-Nov-18	\$0.105	\$0.018	100%
31-Jul-17	01-Jul-18	30-Jun-21	\$0.15	\$0.016	100%
31-Jul-17	01-Jul-19	30-Jun-21	\$0.15	\$0.020	0%
31-Jul-17	01-Jul-20	30-Jun-21	\$0.15	\$0.023	0%
31-Jul-18	1-Jul-19	1-Jul-22	\$0.12	\$0.050	0%
31-Jul-18	1-Jul-20	1-Jul-22	\$0.12	\$0.050	0%
31-Jul-18	1-Jul-21	1-Jul-22	\$0.12	\$0.050	0%

On 31 July 2018, the Board approved the issue of 14,605,000 options to staff and 4,750,000 to the Managing Director (subsequently ratified by shareholders at the 2018 annual general meeting). These options vest in three equal tranches, beginning on 1 July 2019. The company has internally measured

DIRECTORS' REPORT

the fair value of options granted by adopting a Black-Scholes pricing model, the details of which are disclosed in Note 26.

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

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.

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).

The Company has the option of deferral of performance-based remuneration and/or the reduction, cancellation or clawback of the performance-based remuneration in the event of serious misconduct or a material misstatement in the Company's financial statements.

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 current 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 \$	Year lapsed options were granted
Directors of Arafura Resources Limited						
M Southey	-	-	-	-	-	-
G Lockyer	4,750,000	113,063	-	3,000,000	51,000	2015
C Tonkin	-	-	-	-	-	-
Q Zhang	-	-	-	-	-	-
T Grose	-	-	-	-	-	-
I Kowalick	-	-	-	-	-	-
Other key management personnel of the group						
P Sherrington	2,650,000	133,035	100,000	600,000	13,000	2015
R Brescianini	2,350,000	117,975	100,000	600,000	13,000	2015
B Fowler	2,200,000	110,444	100,000	600,000	13,000	2015
L Kaiser	2,250,000	112,954	100,000	300,000	6,500	2015
S Watkins	3,375,000	169,432	100,000	-	-	-

The assessed fair value at grant date of the options given 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 determined using the Black Scholes option pricing model that take into account the exercise price, the term of the option, the impact of dilution, the share price at grant

DIRECTORS' REPORT

date and the expected price volatility of the underlying share and the risk-free interest rate of the term of the option.

Shares provided on exercise of remuneration options

No options were converted to shares by any Key Management Personnel during the 30 June 2019 financial year.

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

Employee Share Scheme - Performance rights

Performance rights in Arafura Resources Limited are granted by the Board under the Arafura Resources Limited Performance Rights Plan which was last approved by shareholders at the 2017 Annual General Meeting.

Performance rights are issued for no consideration and vest according to a set of performance criteria being met. The vesting of the performance rights is determined at the Board's discretion.

The Board approved a total of 10,000,000 performance rights to be offered to senior staff, senior management and the managing director. The managing director was issued 3,000,000 performance rights which was subsequently approved by shareholders at the Annual General Meeting on 22 November 2018. These performance rights were granted in three tranches and will vest upon the successful completion of the following performance conditions:

1. Tranche 1- completion of the DFS within 25% or better of US\$680m Capex and \$35/kg NdPr Opex (excluding Phosphate credit) for the Company's Nolans NdPr Project and completion of an eligible service period of 24 months from the date the milestone is achieved.
2. Tranche 2- Grant of the Mining Lease from the Northern Territory Department of Primary Industry and Resources in relation to the Nolans NdPr Project and completion of an eligible service period of 24 months from the date the milestone is achieved.
3. Tranche 3- Project funding secured on term acceptable to the Board to enable project investment decision and completion of an eligible service period of 24 months from the date the milestone is achieved.

The Board has ultimate discretion on whether the performance hurdles have been met. Each Tranche of performance rights will (if not vested) lapse four years after the issue of those performance rights. During the year, the Board confirmed that the Tranche 1 milestone was met on 7 February 2019 and will therefore vest after the 24 month service period has been completed.

The performance rights have been valued at fair value, with the details on valuation disclosed in Note 26.

DIRECTORS' REPORT

The performance rights issued in the period to key management personnel are as follows:

Name	Number of performance rights granted during the year	Value of performance rights at grant date \$	Number of performance rights vested during the year	Number of performance rights lapsed during the year	Value of lapsed performance rights \$	Year lapsed performance rights were granted
Directors of Arafura Resources Limited						
M Southey	-	-	-	-	-	-
G Lockyer	3,000,000	189,000	-	-	-	-
C Tonkin	-	-	-	-	-	-
Q Zhang	-	-	-	-	-	-
T Grose	-	-	-	-	-	-
I Kowalick	-	-	-	-	-	-
Other key management personnel of the group						
P Sherrington	1,450,000	111,650	-	-	-	-
R Brescianini	1,000,000	77,000	-	-	-	-
B Fowler	1,000,000	77,000	-	-	-	-
L Kaiser	1,000,000	77,000	-	-	-	-
S Watkins	1,350,000	103,950	-	-	-	-

E Additional information

Loans to Directors and Executives

There were no loans to Directors and/or Executives during the reporting period or at 30 June 2019.

Other transactions with key management personnel

In the 2018 and 2019 financial year, there were no transactions with individuals at any time.

DIRECTORS' REPORT

Movements in option interests of Key Management Personnel for 30 June 2019

2019	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of year	Vested and exercisable	Unvested
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Directors of Arafura Resources Limited

M Southey	-	-	-	-	-	-	-
G Lockyer	3,000,000	4,750,000	-	(3,000,000)	4,750,000	-	4,750,000
C Tonkin	-	-	-	-	-	-	-
Q Zhang	-	-	-	-	-	-	-
T Grose	-	-	-	-	-	-	-
I Kowalick	-	-	-	-	-	-	-

Key management personnel of the Group

P Sherrington	900,000	2,650,000	-	(600,000)	2,950,000	100,000	2,850,000
R Brescianini	900,000	2,350,000	-	(600,000)	2,650,000	100,000	2,550,000
B Fowler	900,000	2,200,000	-	(600,000)	2,500,000	100,000	2,400,000
L Kaiser	600,000	2,250,000	-	(300,000)	2,550,000	100,000	2,450,000
S Watkins	-	3,375,000	-	-	3,375,000	-	-
Total	6,300,000	17,575,000	-	(5,100,000)	18,775,000	400,000	15,000,000

Movements in performance rights of Key Management Personnel for 30 June 2019

Name	Balance at the start of the year	Granted as compensation	Exercised	Other Changes	Balance at end of the year	Vested and exercisable	Unvested
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Directors of Arafura Resources Limited

M Southey	-	-	-	-	-	-	-
G Lockyer	-	3,000,000	-	-	3,000,000	-	3,000,000
C Tonkin	-	-	-	-	-	-	-
Q Zhang	-	-	-	-	-	-	-
T Grose	-	-	-	-	-	-	-
I Kowalick	-	-	-	-	-	-	-

Other key management personnel of the group

P Sherrington	-	1,450,000	-	-	1,450,000	-	1,450,000
R Brescianini	-	1,000,000	-	-	1,000,000	-	1,000,000
B Fowler	-	1,000,000	-	-	1,000,000	-	1,000,000
L Kaiser	-	1,000,000	-	-	1,000,000	-	1,000,000
S Watkins	-	1,350,000	-	-	1,350,000	-	1,350,000
Total	-	8,800,000	-	-	8,800,000	-	8,800,000

DIRECTORS' REPORT

Movements in share interests of Key Management Personnel for 30 June 2019

2019	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year (on market trades, entitlement offer and share purchase plan)	Balance at the end of the year
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Directors of Arafura Resources Limited

M Southey	-	-	250,000	250,000
G Lockyer	727,014	-	571,301	1,298,315
C Tonkin	100,000	-	138,637	238,637
Z Quansheng	-	-	-	-
T Grose	103,334	-	25,834	129,168
I J Kowalick	577,007	-	6,752	583,759

Key management personnel of the Group

P Sherrington	228,000	-	284,273	512,273
R Brescianini	85,054	-	128,583	213,637
B Fowler	-	-	-	-
L Kaiser	-	-	-	-
S Watkins	-	-	-	-
Total	1,820,409	-	1,405,380	3,225,789

This is the end of the audited remuneration report.

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.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

DIRECTORS' REPORT

Non-audit services

Non-audit services totalling \$8,250 were provided by BDO in the 2019 financial year as a result of the Board engaging *BDO Reward (WA) Pty Ltd* to finalise the Reward Strategy and Policy Framework and Board and Executive Remuneration review started in the 30 June 2018 financial period.

The Directors are satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the *Corporations Act 2001* nor the principles set out in *APES110 Code of Ethics for Professional Accountants*.

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*.

Details of the provision of audit services by *BDO Audit (WA) Pty Ltd* and its related entity *BDO Reward (WA) Pty Ltd*, can be found at Note 19 of this financial report.

AUDITOR'S INDEPENDENCE DECLARATION

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 46.

Signed in accordance with a resolution of the Directors.



G. Lockyer
Managing Director



M. Southey
Chairman

Perth, Western Australia
21 August 2019

DECLARATION OF INDEPENDENCE BY JARRAD PRUE TO THE DIRECTORS OF ARAFURA RESOURCES LIMITED

As lead auditor of Arafura Resources Limited for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
2. No contraventions of 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 year.



Jarrad Prue
Director

BDO Audit (WA) Pty Ltd
Perth, 21 August 2019

CORPORATE GOVERNANCE STATEMENT

Our Approach to Corporate Governance

Arafura Resources Limited ACN 080 933 455 (Company) has established a corporate governance framework, the key features of which are set out in this statement. In establishing its corporate governance framework, the Company has referred to the recommendations set out in the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations 3rd 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 do not follow a recommendation, the Board has explained its reasons for not following the recommendation and disclosed what, if any, alternative practices the Company has adopted instead of those in the recommendation.

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

Charters

Board

Audit and Risk Committee

Nomination and Remuneration Committee

Policies and Procedures

Process for Performance Evaluations

Policy and Procedure for the Selection and (Re)Appointment of Directors

Director and Senior Executive Induction Program

Diversity Policy (summary)

Code of Conduct (summary)

Policy on Continuous Disclosure (summary)

Compliance Procedures (summary)

Shareholder Communication and Investor Relations Policy

Securities Trading Policy

Whistleblower Policy

The Company reports below on whether it has followed each of the recommendations during the 2018/2019 financial year (Reporting Period).

The information in this statement is current at 21 August 2019. This statement was approved by a resolution of the Board on 21 August 2019.

CORPORATE GOVERNANCE STATEMENT

Principle 1 – Lay solid foundations for management and oversight

Recommendation 1.1

The Company has established the respective roles and responsibilities of its Board and management, and those matters expressly reserved to the Board and those delegated to management and has documented this in its *Board Charter*.

Recommendation 1.2

The Company undertakes appropriate checks before appointing a person, or putting forward to shareholders a candidate for election as a director and provides shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director. The checks which are undertaken, and the information provided to shareholders are set out in the Company's *Policy and Procedure for the Selection and (Re)Appointment of Directors*.

Recommendation 1.3

The Company has a written agreement with each director and senior executive setting out the terms of their appointment. The material terms of any employment, service or consultancy agreement the Company, or any of its child entities, has entered into with its Managing Director, any of its directors, and any other person or entity who is related party of the Managing Director or any of its directors has been disclosed in accordance with ASX Listing Rule 3.16.4 (taking into consideration the exclusions from disclosure outlined in that rule).

Recommendation 1.4

The Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board as outlined in the Company's *Board Charter*. The Company's Secretary's role is also outlined in the employment agreement between the Company Secretary and the Company.

Recommendation 1.5

The Company has a Diversity Policy, which outlines the Company's commitment to ensuring a diverse mix of skills and talent exists amongst its directors, officers and employees, to enhance Company performance. The Diversity Policy addresses equal opportunities in the hiring, training and career advancement of directors, officers and employees and also outlines the process by which the Board may set measurable objectives to achieve the aims of its Diversity Policy, with particular focus on gender diversity within the Company. The Diversity Policy does not include requirements for the Board to set measurable objectives for achieving gender diversity (or to assess annually both the objectives and the Company's progress in achieving them), but notes that the Board may do so.

For the Reporting Period, the Board decided not to set measurable objectives for achieving gender diversity. After consideration, the Board decided that the size and nature of the Company's operations meant that establishing meaningful objectives was not practical at this stage.

The Board considers that it can monitor gender diversity without establishing objectives. The Board will reconsider the establishment of measurable objectives for achieving gender diversity as its circumstances change.

CORPORATE GOVERNANCE STATEMENT

The respective proportions of men and women on the Board, in senior executive positions and across the whole organisation are set out in the following table. “Senior executive” for these purposes means Key Management Personnel as defined in the Accounting Standards:

	Proportion of women
Whole organisation	5 out of 15 (33%)
Senior executive positions (excluding the Managing Director)	0 out of 5 (0%)
Board	0 out of 4 (0%)

Recommendation 1.6

The Chair has the overall responsibility 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 whilst the Chairman of the Audit and Risk Committee is, when deemed appropriate, responsible for evaluating the Chairman of the Company after having canvassed the views of the other directors.

The process employed by the Company for evaluating the performance of the Board, individual directors and any applicable committees is set out in the Company’s Process for Performance Evaluations, which is disclosed on the Company’s website.

During the Reporting Period each director, including the Managing Director, completed a Performance Evaluation questionnaire. The results from the individual questionnaires were collated and reviewed by the Board.

Mark Southey was appointed as Chairman of the Board and Chairman of the Nomination and Remuneration Committee in February 2019. Given the short time he has had in the role, Mark’s performance review was not completed in the reporting period. Consequently, a separate performance review for the Managing Director was not conducted in the reporting period to review the Managing Director’s performance against the prior year’s KPI’s and to establish new KPI’s for the following period. It was deemed appropriate to defer both performance reviews until such time where Mark Southey has settled into his role.

Recommendation 1.7

The Managing Director is responsible for evaluating the performance of senior executives in accordance with the process disclosed in the Company’s Process for Performance Evaluations.

An evaluation of senior executives is completed on a bi-annual basis. The evaluation consisted of a formal review of performance against the core competencies expected of each senior executive.

Principle 2 – Structure the board to add value

Recommendation 2.1

The Board has established a Nomination and Remuneration Committee comprised of Mark Southey (Chair) and Chris Tonkin. Due to the size of the board and the location of its individual members, it’s

CORPORATE GOVERNANCE STATEMENT

not practical for there to be more than two members to the Nomination and Remuneration Committee and therefore the Company is not in compliance with Recommendation 2.1(a). The size and composition of the Nomination and Remuneration Committee was assessed at the 15 May 2019 Board Meeting and it was determined that this was appropriate for the nature and size of the Company's current operations.

The Company believes there is merit in retaining a Nomination and Remuneration Committee to discuss and facilitate remuneration and nomination matters. The recommendations of the Nomination and Remuneration Committee are referred to the Board for the final decision process. Membership to the Nomination and Remuneration Committee will be reviewed again when there are further changes to the Board.

Details of director attendance at Nomination and Remuneration Committee meetings during the Reporting Period are set out in a table in the Directors' Report on page 28 of the Company's 2019 Annual Report.

The Board has adopted a Nomination and Remuneration Committee Charter which describes the role, composition, functions and responsibilities of the Nomination and Remuneration Committee and is disclosed on the Company's website.

Recommendation 2.2

A profile of each director setting out their skills, experience, expertise and period of office is set out in the Directors' Report on page 22.

An appropriate mix of director skills, diversity and board size is required to oversee the Company's strategic direction, opportunities, and challenges at all stages of its development towards the goal of commencing production. When considering the appointment of new directors, the Board seeks to recruit individuals with complementary skills, professional qualifications, and experience to meet the expectations of investors and capital markets. In support of this, the Board applies a Skills Assessment to guide its succession planning and director recruitment agenda.

The following strategy statements summarise the current direction of the Company and influence the skills and experience required at Board level to oversee its implementation:

- To create wealth for shareholders by using innovation, technology, and good management to deliver the Nolans Project and thus supply Neodymium and other RE products to key markets throughout the world;
- To be a leader in the Rare Earth supply chain by developing the Nolans Project as a low cost, efficient, well-regulated, and reliable supplier of Neodymium products to meet global demand; and
- To remain at the forefront of RE extraction processing technology to ensure that the Company's Nolan's plant will remain world competitive in operating efficiencies and capital and operating costs.

CORPORATE GOVERNANCE STATEMENT

The Board has regularly reviewed its need for renewal and succession planning as Arafura transitions from the exploration and development phase where skills in project development are paramount to a growth period, a changing composition of the Company board will be considered.

- The Board is currently comprised of a majority of non-executive directors (NED's) the majority of whom are classified as independent.
- Through appropriate Board renewal over future years, consistent with the Company's strategic direction, the Board will maintain and develop skills and experience of directors in finance, contracts & negotiation, technology and innovation, engineering and construction, audit and accounting, risk management, business strategy, marketing, business development and project management.

The current skills and experience mix of the four current directors is summarised in the following table (full director biographies are shown on pages 22-25).

Skills and Experience	Description	Directors
Business Strategy	Directors that have reasonable experience in executive strategy positions, including previous managing director, chief executive and/or strategic manager roles.	4
Corporate Governance	Directors that are current or former board members of other publicly listed companies, with emphasis on individuals that currently or formerly chair an audit or remuneration subcommittee. Private Company, not-for-profit and government sector boards are also considered.	4
International Experience	Directors that have worked on projects in regions and countries where Arafura is currently looking to find investment or operate or have a reasonable understanding of same.	3
Technology & Innovation	Professional qualifications/experience in the research development and implementation of minerals processing technologies, Chemical Engineering, Geology, Mining & Rare Earths industry	4
Project Engineering Construction & execution	Practical experience with engineering design and project execution in an executive or senior manager capacity.	4
Project Management	Individuals that carry relevant experience in project manager or executive director roles across large scale projects	4

Recommendation 2.3

The Board considers the independence of directors having regard to the relationships listed in Box 2.3 of the Principles & Recommendations and the Company's materiality thresholds.

The status of Directors independence was discussed and determined on the 15 May 2019 Board Meeting. As a result, it was determined that the independent directors of the Company are Mark Southey and Chris Tonkin.

CORPORATE GOVERNANCE STATEMENT

The non-independent director of the Company is Mr Zhang Quansheng, as he is a nominee director appointed by the Company's largest shareholder ECE Nolans Investment Company Pty Ltd.

Mr Tonkin is independent as he is a non-executive director who is not a member of management and is 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 his judgement.

Mr Southey is independent as he is a non-executive director who is not a member of management and is 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 his judgement.

The length of service of each director is set out in the Directors' Report on pages 22-27 of the Company's 2019 Annual Report.

Recommendation 2.4

The Board has an equal number of independent and non-independent directors. Given the size and nature of the Company's operations, this was considered appropriate. The Company is of the view that independence is achieved through the role of the independent Chair. The Chair has the casting vote on decisions made by the Board.

Recommendation 2.5

The independent Chair of the Board is Mark Southey, He is not the Company's Managing Director.

Recommendation 2.6

The Company has an induction program that it uses to when new directors join the Board and when new senior executives are appointed. The goal of the program is to assist new directors to participate fully and actively in Board decision-making at the earliest opportunity and to assist senior executives to participate fully and actively in management decision-making at the earliest opportunity. The Company's *Director and Senior Executive Induction Program* is disclosed on the Company's website.

The Nomination and Remuneration Committee regularly reviews whether the directors as a group have the skills, knowledge and familiarity with the Company and its operating environment required to fulfil their role on the Board and the Board committees effectively using a Board skills matrix. Where any gaps are identified, the Nomination and Remuneration Committee considers what training or development should be undertaken to fill those gaps. Where appropriate, workshops are organised for the directors on topics of significant risk or relevance to the organisation. In particular, the Nomination and Remuneration Committee ensures that any director who does not have specialist accounting skills or knowledge has a sufficient understanding of accounting matters to fulfil his or her responsibilities in relation to the Company's financial statements. Directors also receive ongoing education on developments in accounting standards as the inclusion of key audit memos are presented in the board packs.

CORPORATE GOVERNANCE STATEMENT

Principle 3 – Act ethically and responsibly

Recommendation 3.1

The Company has established a Code of Conduct for its directors, senior executives and employees, which is disclosed on the Company's website.

Principle 4 – Safeguard integrity in corporate reporting

Recommendation 4.1

The Board has established an Audit and Risk Committee comprising Chris Tonkin (Chair) and Mark Southey. Due to the size of the board and the location of its individual members, it's not practical for there to be more than two members to the Audit and Risk Committee and therefore the Company is not in compliance with Recommendation 4.1(a) and Recommendation 7.1(a). The size and composition of the Audit and Risk Committee was assessed at the 15 May 2019 Board Meeting and it was determined that this was appropriate for the nature and size of the Company's current operations.

The Company believes there is merit in retaining an Audit and Risk Committee to discuss and facilitate audit and risk matters. The recommendations of the Audit and Risk Committee are referred to Board for the final decision process. Membership to the Audit and Risk Committee will be reviewed again when there are further changes to the Board.

The Company has also 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.

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 Board.

Details of director attendance at Audit and Risk Committee meetings during the Reporting Period are set out in a table in the Directors' Report on page 28 of the Company's 2019 Annual Report.

The Board has adopted an Audit and Risk Committee Charter which describes the Audit and Risk Committee's role, composition, functions and responsibilities and is disclosed on the Company's website.

Recommendation 4.2

Before the Board approved the Company financial statements for the half year ended 31 December 2018 and the full-year ended 30 June 2019 and each of the quarters ending 30 September 2018, 31 December 2018, 31 March 2019 and 30 June 2019, it received from the Managing Director and the Chief Financial Officer a declaration that, in their opinion, the financial records of the Company for the relevant financial period has been properly maintained and that the financial statements for the relevant financial period comply with the appropriate accounting standards and give a true and fair

CORPORATE GOVERNANCE STATEMENT

view of the financial position and performance of the Company and the consolidated entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Recommendation 4.3

Under section 250RA of the Corporations Act, the Company's auditor is required to attend the Company's Annual General Meeting at which the audit report is considered, and must arrange to be represented by a person who is a suitably qualified member of the audit team that conducted the audit and is in a position to answer questions about the audit. Each year, the Company writes to the Company's auditor to inform them of the date of the Company's Annual General Meeting.

In accordance with section 250S of the Corporations Act, at the Company's Annual General Meeting where the Company's auditor or their representative is at the meeting, the Chair allows a reasonable opportunity for the members as a whole at the meeting to ask the auditor (or its representative) questions relevant to the conduct of the audit; the preparation and content of the auditor's report; the accounting policies adopted by the Company in relation to the preparation of the financial statements; and the independence of the auditor in relation to the conduct of the audit. The Chair also allows a reasonable opportunity for the auditor (or their representative) to answer written questions submitted to the auditor under section 250PA of the Corporations Act.

Representatives from the Company's auditor, BDO attended the Company's annual general meeting held on 22 November 2018.

Principle 5 – Make timely and balanced disclosure

Recommendation 5.1

The Company has established written policies and procedures for complying with its continuous disclosure obligations under the ASX Listing Rules. A summary of the Company's *Policy on Continuous Disclosure and Compliance Procedures* are disclosed on the Company's website.

Principle 6 – Respect the rights of security holders

Recommendation 6.1

The Company provides information about itself and its governance to investors via its website at www.arultd.com as set out in its *Shareholder Communication and Investor Relations Policy*.

Recommendation 6.2

The Company has designed and implemented an investor relations program to facilitate effective two-way communication with investors. The program is set out in the Company's *Shareholder Communication and Investor Relations Policy*.

Recommendation 6.3

The Company has in place a *Shareholder Communication and Investor Relations Policy* which outlines the policies and processes that it has in place to facilitate and encourage participation at meetings of shareholders.

CORPORATE GOVERNANCE STATEMENT

Recommendation 6.4

Shareholders are given the option to receive communications from, and send communications to, the Company and its share registry electronically. Upon becoming a shareholder, a 'Welcome Letter' is sent by the Company. The 'Welcome Letter' includes information on communication preferences which directs the shareholder to the Share Registry's website at www.linkmarketservices.com.au to enable shareholders to elect to receive information from the Company and its share registry electronically.

The Company also provides access to its share registry's website via its website at www.arultd.com/investor-centre/shareholder-services.html.

Principle 7 – Recognise and manage risk

Recommendation 7.1

As noted above in relation to Recommendation 4.1, the Board has established a combined Audit and Risk Committee. The Audit and Risk Committee is structured in accordance with Recommendation 7.1.

Recommendation 7.2

The Board reviews the Company's risk management framework quarterly to satisfy itself that it continues to be sound, to determine whether there have been any changes in the material business risks the Company faces and to ensure that the Company is operating within the risk appetite set by the Board. The Board carried out these reviews during the Reporting Period.

Recommendation 7.3

The Company does not have an internal audit function. Given the size of the organisation, the Board believes that an internal audit function is not required. However, during the Reporting Period Arafura did perform its own internal audit over some of the key controls which are significant to the operation of the Company and discussed these with the Audit and Risk Committee. This process has evolved into bi-annual procedures to ensure adequate monitoring of the control environment is in place and any issues identified are adequately addressed.

To evaluate and continually improve the effectiveness of the Company's risk management, the Board relies on ongoing reporting and discussion of the management of material business risks as outlined in the Company's *Risk Management Policy*.

Recommendation 7.4

The Company has material exposure to economic, environmental and/or social sustainability risks as set out in its sustainability report.

The report can be found at the website www.arultd.com/about-us/corporate-governance.html.

CORPORATE GOVERNANCE STATEMENT

Principle 8 – Remunerate fairly and responsibly

Recommendation 8.1

As noted above in relation to Recommendation 2.1, the Board has established a Nomination and Remuneration Committee. The Nomination and Remuneration Committee is structured in compliance with Recommendation 8.1.

Recommendation 8.2

Details of remuneration, including the Company's policy on remuneration, are contained in the "Remuneration Report" which forms of part of the Directors' Report and commences at page 29 of the Company's 2019 Annual Report. This disclosure includes a summary of the Company's policies regarding the deferral of performance-based remuneration and the reduction, cancellation or clawback of the performance-based remuneration in the event of serious misconduct or a material misstatement in the Company's financial statements.

Recommendation 8.3

The Company's Nomination and Remuneration Committee Charter includes a statement of the Company's policy on prohibiting participants in the Company's Option Plan and Performance Rights Plan entering into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the previously mentioned Plans.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 \$	2018 \$
Revenue from continuing operations	4(a)	127,232	247,629
Non-capitalised portion of R&D tax incentive rebate	4(c)	445,835	659,567
Other income/(loss)	4(b)	(171,478)	(491)
Employee benefits expense	5(c)	(2,575,777)	(2,183,060)
Other expenses	5(e)	(2,903,779)	(2,515,848)
Depreciation and amortisation	5(a)	(184,633)	(63,024)
Finance costs	5(b)	(5,417)	(4,692)
Share Based Payments	5(d)	(538,127)	(24,800)
Impairment of assets	5(f)	(48,013)	(1,230,693)
Loss before income tax		(5,854,157)	(5,115,412)
Net (Loss) after income tax for the year		(5,854,157)	(5,115,412)
Total comprehensive (loss) for the year attributable to owners of Arafura Resources Limited		(5,854,157)	(5,115,412)
Loss per share attributable to owners of Arafura Resources Limited			
Basic loss per share	21	(0.86)	(0.90)
Diluted loss per share	21	(0.86)	(0.90)

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 YEAR ENDED 30 JUNE 2019

	Notes	2019 \$	2018 \$
CURRENT ASSETS			
Cash and cash equivalents	7	5,397,774	7,874,096
Trade and other receivables	8	61,715	209,704
Total Current Assets		5,459,489	8,083,800
NON-CURRENT ASSETS			
Property, plant and equipment	9	110,688	483,621
Deferred exploration, evaluation and development costs	10	100,239,297	93,158,071
Other assets	11	255,007	231,378
Total Non-Current Assets		100,604,992	93,873,070
TOTAL ASSETS		106,064,481	101,956,870
CURRENT LIABILITIES			
Trade and other payables	12	722,261	1,772,179
Provisions	13	721,985	727,329
Total Current Liabilities		1,444,246	2,499,508
NON-CURRENT LIABILITIES			
Provisions	13	7,339	6,721
Total Non-Current Liabilities		7,339	6,721
TOTAL LIABILITIES		1,451,585	2,506,229
NET ASSETS		104,612,896	99,450,641
EQUITY			
Contributed equity	14	214,045,526	203,567,241
Reserves	15	12,213,590	11,675,463
Accumulated losses	16	(121,646,220)	(115,792,063)
TOTAL EQUITY		104,612,896	99,450,641

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2019

Consolidated	Notes	Contributed equity \$	Equity reserve \$	Accumulated losses \$	Total equity \$
Balance at 30 June 2017		200,590,837	11,650,663	(110,676,651)	101,564,849
Loss for the 2018 financial year	16	-	-	(5,115,412)	(5,115,412)
Other comprehensive income		-	-	-	-
Total Comprehensive loss for the year		-	-	(5,115,412)	(5,115,412)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs and tax	14	2,976,404	-	-	2,976,404
Employee share options – value of employee services	15	-	24,800	-	24,800
Balance at 30 June 2018		203,567,241	11,675,463	(115,792,063)	99,450,641
Loss for the 2019 financial year	16	-	-	(5,854,157)	(5,854,157)
Other comprehensive income		-	-	-	-
Total Comprehensive loss for the year		-	-	(5,854,157)	(5,854,157)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs and tax	14	10,478,285	-	-	10,478,285
Employee share options – value of employee services	15	-	538,127	-	538,127
Balance at 30 June 2019		214,045,526	12,213,590	(121,646,220)	104,612,896

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

CONSOLIDATED STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 30 JUNE 2019

Consolidated Statement of Cashflows		
	30 June 2019	30 June 2018
Notes	\$	\$

Cash flows from operating activities

Payments to suppliers and employees	(5,356,618)	(4,450,030)
Interest received	208,918	265,164
R&D Incentive rebate - non-capitalised portion	445,835	659,567
Interest paid	(5,417)	(4,692)
Net cash (outflow) from operating activities	(4,707,282)	(3,529,991)

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Cash flows from investing activities

Payment for property, plant and equipment	(4,317)	(407,718)
Payment to acquire tenements/proceeds from relinquishment of tenement	(23,629)	9,928
Proceeds from disposal of fixed assets	20,909	-
Payments for exploration and evaluation	(9,902,477)	(4,819,684)
R&D Incentive rebate - capitalised portion	1,661,960	1,173,986
Other	-	-
Net cash (outflow) from investing activities	(8,247,554)	(4,043,488)

Cash flows from financing activities

Net proceeds from issue of shares	11,346,697	3,174,550
Payments for transaction costs	(868,412)	(198,146)
Net cash inflow from financing activities	10,478,285	2,976,404

Net decrease in cash and cash equivalents

(2,476,551) (4,597,075)

Cash at the beginning of the financial year	7,874,096	12,471,662
Effects of exchange rate changes on cash and cash equivalents	229	(491)
Cash and cash equivalents at the end of the financial year	5,397,774	7,874,096

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

INDEX TO THE NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

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, Interpretations and the *Corporations Act 2001*. Arafura Resources Limited is a for-profit entity for the purpose of preparing the financial statements.

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 2018.

Historical cost convention

These financial statements have been prepared on a historical cost basis.

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

Arafura's financial statements have been prepared on a going concern basis.

(c) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Arafura Resources Limited ('parent entity') as at 30 June 2019 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 1: Summary of significant accounting policies (continued)

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Joint arrangements

Under *AASB 11 Joint Arrangements* investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

Joint Operations

Arafura recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements, further reference is made at Note 24.

Joint Ventures

Although Arafura has no current interest in any joint venture, any interests in joint ventures will be accounted for using the equity method, after initially being recognised at cost in consolidated Statement of Financial Position.

(g) Fair value estimation

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

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.

(h) Impairment of non-current assets

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 1: Summary of significant accounting policies (continued)

(i) Employee benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees up to the 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 and Performance Rights 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 26.

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 fair value of performance rights granted to employees for nil consideration is recognised as an expense over the relevant service period, being the year to which the milestone relates and the vesting period of the rights. The fair value is measured at the grant date of the right and is recognised in equity in the share-based payment reserve. The number of rights expected to vest is estimated based on the attaching milestone conditions. The estimates are revised at the end of each reporting period and adjustments are recognised in profit or loss and the share-based payment reserve.

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.

(k) 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.

(l) R&D Incentive Rebate

Any rebate received for eligible Research and Development activities are offset against the area where the costs were initially incurred. For R&D expenditure that has been capitalised, any claim received will be offset against 'Deferred Exploration and Evaluation Expenditure' in the Consolidated Statement of Financial Position. For R&D expenditure that has been expensed, any claim received will be recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 1: Summary of significant accounting policies (continued)

(m) Accounting Standards Issued Not Yet Effective

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting periods and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below.

i) AASB 16 (issued January 2016) – Leases

Application date:

Must be applied for annual reporting periods beginning on or after 1 January 2019.

Therefore, application date for the Company will be 30 June 2020.

Nature of change:

AASB 16 was issued in February 2016. The most significant impact will be all leases being recognised on the Statement of Financial Position by lessees, as the distinction between operating and finance leases has been removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Impact on initial application:

As at the reporting date, the Company has rental agreements which are impacted by the application of AASB 16. Note 20 includes the commitment of rent for Perth and Darwin for the next 12 months ending 30 June 2020. The Company expects to recognise right-of-use assets on 1 July 2019, lease liabilities and direct costs in the form of legal fees. Overall net assets is expected to be higher and net current assets is expected to be lower due to the presentation of the liability portion as a current liability. The impact on retained earnings upon initial recognition would be an adjustment as a result of previous depreciation and interest charges.

For the upcoming financial period, the Company expects the loss after tax to increase due to the additional depreciation charges as a result of the new accounting standard. Operating cash flows are expected increase and financing cash flows decrease as the repayment of the principal portion of the lease liability will be classified as cash flows from financing activities.

Date of adoption by Company:

The Company will apply the standard from its mandatory adoption date for financial periods subsequent to 1 January 2019, therefore it will be in effect as of 1 July 2019. The Company intends on applying the modified retrospective approach and will not restate the comparative amounts for the year prior to first adoption. Right-of-use assets for the properties will be measured on transition as if the new rules had always been applied. This will result in an adjustment to retained earnings on the initial recognition of the standard.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 1: Summary of significant accounting policies (continued)

(n) New and amended standards adopted by the Company

ii) AASB 9 Financial Instruments

Application date: 30 June 2019

Nature of change:

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. It also sets out new rules for hedge accounting.

The new hedging rules align hedge accounting more closely with the Company's risk management practices. As a general rule it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation.

Impact on initial application:

There has been no impact on the Company's accounting for financial assets and financial liabilities.

i) AASB 15 (issued June 2014) – Revenue from contracts with customers

Application date: 30 June 2019

Nature of change:

An entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This means that revenue will be recognised when control of goods or services is transferred, rather than on transfer of risks and rewards as is currently the case under IAS 18 Revenue.

Impact on initial application:

There has been no impact on the Company's accounting for revenue.

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 holds the following financial instruments:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 2: Financial Risk Management (continued)

	2019	2018
	\$	\$
Financial assets		
Cash and cash equivalents	5,397,774	7,874,096
Trade and other receivables	61,715	209,704
	5,459,489	8,083,800
Financial liabilities		
Trade creditors	275,984	1,075,877
Trade and other accruals	424,917	680,526
PAYG and payroll tax liabilities	21,360	15,776
	722,261	1,772,179

(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 limited to the value of a USD bank balance, being USD\$3,463.

(ii) Price risk

The Group was not exposed to equity securities price risk. This typically arises from investments held by the Group and classified on the statement of financial position as financial assets held at fair value. At 30 June 2019, Arafura had no such investments.

(iii) 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.

(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:

	2019	2018
	\$	\$
Cash at bank and short-term bank deposits		
Standard & Poor's rating AA-	5,397,774	7,874,096

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 2: Financial Risk Management (continued)

The Group's exposure to credit risk on financial assets that cannot be assessed by reference to external credit ratings is immaterial.

(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 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 2019	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	722,261	-	-	-	-	722,261	722,261
Fixed rate	-	-	-	-	-	-	-
Total non-derivatives	722,261	-	-	-	-	722,261	722,261

Group – At 30 June 2018	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	1,772,179	-	-	-	-	1,772,179	1,772,179
Fixed rate	-	-	-	-	-	-	-
Total non-derivatives	1,772,179	-	-	-	-	1,772,179	1,772,179

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 3: Critical accounting estimates and judgments (continued)

(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 Exploration and evaluation expenditure

Details of the Group's policy regarding the capitalisation of mining, evaluation and development expenditure are found in Note 10.

(ii) 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 2017/18 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 is currently in the process of claiming for expenditure on the eligible registered R&D activities for the 2019 financial year.

(iii) Share based payments

The Group has issued share based payments in the form of options and performance rights in the year. Assumptions and estimates made in relation to these share based payments are detailed in Note 26.

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

The following critical judgements have been made when applying the entity's accounting policies for the 2018 and 2019 financial year:

(i) Impairment assessment of Exploration and Evaluation cost carried forward.

Details of the Group's impairment assessment of Exploration and Evaluation costs carried forward are found in Note 10.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 4: Revenue

Accounting Standard

Revenue Recognition

Revenue is recognised and measured when the performance obligation has been satisfied. The performance obligation is generally considered to be satisfied when the goods are physically transferred to the buyer.

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).

Goods and Services Tax

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.

2019	2018
\$	\$

(a) Revenue from continuing operations

Other revenue

Interest received	127,232	247,629
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(b) Other Income

Foreign exchange gain/(loss)	229	(491)
Loss on disposal of fixed assets	(171,707)	-
	(171,478)	(491)

(c) Non-capitalised portion of R&D Tax Incentive rebate

Non-capitalised portion of R&D Tax Incentive rebate	445,835	659,567
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 5: Expenses

	2019	2018
	\$	\$
(a) Depreciation		
Depreciation – plant & equipment	173,904	49,082
Depreciation – leasehold improvements	10,729	13,942
Total depreciation	<u>184,633</u>	<u>63,024</u>
(b) Finance costs		
Interest expense	<u>5,417</u>	<u>4,692</u>
Employee benefits expense		
Employee benefits expense	<u>2,575,777</u>	<u>2,183,060</u>
Share Based Payments		
Share-based employee benefits	<u>538,127</u>	<u>24,800</u>
Other expenses		
Accounting and other professional fees	98,676	59,965
Audit fees	52,427	58,035
Consultants fees	949,325	757,946
Insurance	99,751	80,985
Legal fees	349,173	237,042
Share registry and stock listing fees	57,889	82,753
Other expenses	1,296,538	1,239,122
Total other expenses	<u>2,903,779</u>	<u>2,515,848</u>
Impairment of assets		
Capitalised exploration expenditure	<u>48,013</u>	<u>1,230,693</u>
Total Expenses	<u>6,203,646</u>	<u>6,022,117</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 6: Income Tax

Accounting Standard

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 profit or loss and other 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.

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 consolidated 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.

The reconciliation between tax expense and the product of accounting loss before tax multiplied by Group's applicable income tax rate is as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 6: Income Tax (continued)

	2019 \$	2018 \$
Income tax expense		
Current tax		-
Loss before income tax	5,854,157	5,115,412
Income tax/ (benefit) @ 30%	1,756,247	1,534,624
Tax effect of amounts which are not deductible in calculating taxable income:		
• Entertainment	(3,265)	(3,018)
• Share-based payments	(161,438)	(7,439)
• Sundry items not deductible (assessable)	133,819	197,723
• Deferred tax assets relating to tax losses and temporary differences not recognised	(4,514,121)	(2,904,157)
• Temporary differences not recognised	2,788,758	1,182,267
Total income tax benefit	-	-

The franking account balance at year end was \$nil (2018 \$nil)

Deferred tax assets and liabilities not recognised relate to the following:

Deferred tax assets

Tax losses	59,710,879	55,535,174
Other temporary differences	647,980	558,780
Total deferred tax assets	60,358,859	56,093,954
Deferred tax liabilities	(30,072,136)	(27,947,421)
Net Deferred tax assets	30,286,723	28,146,533

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 7: Current assets – cash and cash equivalents

Accounting Standard

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.

	2019	2018
	\$	\$
Cash at bank and in hand	1,397,774	1,224,096
Bank deposits	4,000,000	6,650,000
	<u>5,397,774</u>	<u>7,874,096</u>

(1) All bank deposits mature within three months of 30 June 2019

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

Reconciliation to cash at the end of the year

Balances as above	5,397,774	7,874,096
Balances as per statements of cash flows	<u>5,397,774</u>	<u>7,874,096</u>

The Group's exposure to interest rate risk is discussed in Note 2.

Note 8: Trade and other receivables

Accounting Standard

Trade receivables are recognised initially at fair value less allowance for expected credit losses. 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 using the expected credit loss model under AASB 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 9: Non-current assets – property, plant and equipment

Accounting Standard

(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.

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 profit or loss and other 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 position 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 profit or loss and other comprehensive income.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 9: Non-current assets – property, plant and equipment (continued)

	Office furniture and fittings	Office and computer equipment	Plant and equipment	Motor vehicles	Land, Buildings and leasehold additions	Total
Consolidated	\$	\$	\$	\$	\$	\$
Year ended 30 June 2018						
Opening book amount	9,310	52,940	422	-	76,257	138,929
Additions	11,808	28,637	367,271	-	-	407,716
Depreciation charge	(2,770)	(30,998)	(15,314)	-	(13,942)	(63,024)
Closing book amount	18,348	50,579	352,379	-	62,315	483,621
At 30 June 2018						
Cost or fair value	94,631	763,793	467,187	203,308	169,488	1,698,407
Accumulated depreciation	(76,283)	(713,214)	(114,808)	(203,308)	(107,173)	(1,214,786)
Net book amount	18,348	50,579	352,379	-	62,315	483,621
Year ended 30 June 2019						
Opening book amount	18,348	50,579	352,379	-	62,315	483,621
Additions	-	4,317	-	-	-	4,317
Disposals	-	-	(192,617)	-	-	(192,617)
Depreciation charge	(3,313)	(28,987)	(141,604)	-	(10,729)	(184,633)
Closing book amount	15,035	25,909	18,158	-	51,586	110,688
At 30 June 2019						
Cost or fair value	94,631	768,110	126,440	203,308	169,488	1,361,977
Accumulated depreciation	(79,596)	(742,201)	(108,282)	(203,308)	(117,902)	(1,251,289)
Net book amount	15,035	25,909	18,158	-	51,586	110,688

Note 10: Non-current assets – deferred exploration and evaluation expenditure

Accounting Standard

(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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 10: Non-current assets – deferred exploration and evaluation expenditure (continued)

(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.

2019	2018
\$	\$

Exploration, evaluation and development costs carried forward

Balance at beginning of year	93,158,071	89,751,800
Capitalised exploration expenditure	609,619	2,131,216
Capitalised evaluation expenditure ^(a)	8,181,580	3,679,734
Impairment of exploration expenditure ^(b)	(48,013)	(1,230,693)
R&D Tax Incentive rebate received against capitalised evaluation costs	(1,661,960)	(1,173,986)
Balance at end of year	100,239,297	93,158,071

- (a) Capitalised evaluation expenditure is expenditure on the Nolans Project, its proposed design and engineering including pilot plant activities, environmental impact assessments 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.
- (b) Two tenements were surrendered in the period, EL31096 and EL31097, which has resulted in the impairment expenditure above of \$48,013.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 11: Non-current assets – other assets

	2019 \$	2018 \$
Lease Bonds	101,693	101,693
Tenement Bonds	153,313	129,684
	<u>255,007</u>	<u>231,378</u>

Accounting Standards

(a) Investments and other financial assets

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

(i) 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.

(b) 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 profit or loss and other 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 profit or loss and other comprehensive income on a straight-line basis over the lease period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 12: Current liabilities – trade and other payables

Accounting Standard

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.

2019	2018
\$	\$

Current

Trade creditors ^(a)	275,984	1,075,877
Trade and other accruals	424,917	680,526
PAYG and payroll tax liabilities	21,360	15,776
	722,261	1,772,179

Information about the Group's exposure to foreign exchange risk is provided in Note 2.

Carrying amounts equal fair values due to the short-term nature.

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

Note 13: Current and non-current liabilities – provisions

2019	2018
\$	\$

Current

Annual and long service leave	580,135	567,849
Provision for restoration of evaluation expenditure	141,850	159,480
	721,985	727,329

Non-current

Long service leave	7,339	6,721
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Accounting Standard

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 14: Equity – contributed equity

Accounting Standard

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.

2019	2018	2019	2018
Shares	Shares	\$	\$

Share capital

Fully paid ordinary shares	781,403,114	575,755,949	214,045,526	203,567,241
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(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-17	Balance	546,896,402		200,590,837
27/10/2017	Fully Paid Ordinary Shares	20,344,092	0.11	2,237,850
30/10/2017	Fully Paid Ordinary Shares	4,879,091	0.11	536,700
1/11/2017	Fully Paid Ordinary Shares	3,636,364	0.11	400,000
	Capital Raising Costs			(198,146)
30-Jun-18	Balance	575,755,949		203,567,241
23/08/2018	Fully Paid Ordinary Shares	29,375,000	0.08	2,350,000
30/09/2018	Fully Paid Ordinary Shares	23,118,994	0.08	1,849,520
30/09/2018	Fully Paid Ordinary Shares	1,345,967	0.08	107,677
14/12/2018	Fully Paid Ordinary Shares	68,398,112	0.044	3,009,517
20/12/2018	Fully Paid Ordinary Shares	23,409,092	0.044	1,030,000
16/04/2019	Fully Paid Ordinary Shares	60,000,000	0.05	3,000,000
	Capital Raising Costs			(868,429)
30-Jun-19	Balance	781,403,114		214,045,526

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 14: Equity – contributed equity (continued)

(i) Capital risk management

The Group's objectives when managing capital is 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 monitors 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 position plus net debt.

Note 15: Equity – reserves

Accounting Standard

Share-based payments compensation benefits are provided to employees via the Arafura Resources Ltd Employee Share Option Plan or the Performance Rights Plan. Information relating to these schemes is set out in Note 26.

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.

The fair value of performance rights under the Performance Rights Plan is measured at the grant date of the right and is recognised in equity in the share-based payment reserve. The number of rights expected to vest is estimated based on the attaching milestone conditions. The estimates are revised at the end of each reporting period and adjustments are recognised in profit or loss and the share-based payment reserve.

Non-market vesting conditions are included in assumptions about the number of options and performance rights that are expected to vest. The total expense is recognised over 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 15: Equity – reserves (continued)

	2019	2018
	\$	\$
Reserves		
Share-based payments reserve	12,213,590	11,675,463
	<u>12,213,590</u>	<u>11,675,463</u>
Movements		
<i>Share-based payments reserve</i>		
Balance 1 July 2018	11,675,463	11,650,663
Option expense	538,127	24,800
Balance 30 June 2019	<u>12,213,590</u>	<u>11,675,463</u>

(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.

Note 16: Equity – accumulated losses

	2019	2018
	\$	\$
Balance 1 July 2018	(115,792,063)	(110,676,651)
Net loss for the year	(5,854,157)	(5,115,412)
Balance 30 June 2019	<u>121,646,220</u>	<u>(115,792,063)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 17: Statement of cash flows reconciliation

	2019	2018
	\$	\$
Net (loss)	(5,854,157)	(5,115,412)
Depreciation and amortisation	184,633	63,024
Impairment on assets	48,013	1,230,693
Loss on disposal of fixed assets	171,707	-
Unrealised FX loss/(gain)	(229)	491
Share-based employee benefits	538,127	24,800
(Increase)/decrease in trade & other receivables	147,989	78,530
Increase/(decrease) in trade & other payables	43,730	153,560
Increase/(decrease) in other provisions	12,905	34,323
Net cash (outflow) from operating activities	(4,707,282)	(3,529,991)

Note 18: Key Management personnel compensation

(a) Key management personnel compensation

	2019	2018
	\$	\$
Short-term employee benefits	2,148,433	1,981,017
Post-employment benefits	176,361	164,575
Long-term benefits	39,648	11,077
Share-based payments	485,921	12,327
	2,850,363	2,168,996

Detailed remuneration disclosures are provided in sections A-E of the remuneration report on pages 29 to 43.

(a) 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 and Note 26.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 18: Key Management personnel compensation (continued)

(ii) Loans to key management personnel

In the 2018 and 2019 financial year, there were no loans to individuals at any time.

(iii) Other transactions with key management personnel

In the 2018 and 2019 financial year, there were no transactions with individuals at any time.

Note 19: 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.

	2019	2018
	\$	\$
1. Audit services		
<i>BDO Audit (WA) Pty Ltd</i>		
Audit and review of financial reports	52,427	58,035
Total remuneration for audit services	52,427	58,035

	2019	2018
	\$	\$
2. Non-Audit services		
<i>BDO Reward (WA) Pty Ltd</i>		
Board and Executive remuneration and Reward Strategy and Policy Framework review	8,250	32,150
Total remuneration for non-audit services	8,250	32,150

Note 20: Commitments and contingencies

(a) Capital commitments

No significant capital expenditure has been contracted for at the reporting date but not recognised as a liability.

(b) Lease commitments:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 20: Commitments and contingencies (continued)

	2019	2018
	\$	\$
Within one year	327,121	320,050
Later than one year but not later than five years	-	194,932
Later than five years	-	-
	327,121	514,982

(c) Mining tenement commitments

	2019	2018
	\$	\$
Within one year	238,697	221,592
Later than one year but not later than five years	104,665	223,222
Later than five years	5,512	-
	348,874	444,814

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 position 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.

(d) Contingencies

No contingent liabilities exist at reporting date.

Note 21: Earnings per share

Accounting Standard

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 21: Earnings per share (continued)

(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.

	2019 Cents	2018 Cents
Basic loss per share		
Basic loss per share (cents per share)	(0.86)	(0.9)
Diluted loss per share		
Diluted loss per share (cents per share)	(0.86)	(0.9)

	2019 \$	2018 \$
Net Earnings/(loss)	(5,854,157)	(5,115,412)
Earnings/(loss) used to calculate basic earnings per share	(5,854,157)	(5,115,412)
Earnings/(loss) used to calculate diluted earnings per share	(5,854,157)	(5,115,412)

	2019 Number of shares	2018 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	680,829,733	566,257,031
Weighted average number of ordinary shares used in calculating diluted earnings per share	680,829,733	566,257,031
Weighted average number of ordinary shares from option conversions which are dilutive and potential ordinary shares that are not used in calculation of diluted earnings per share	-	-

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 22: Related party transactions

(a) Parent entity

The parent entity within the Group is Arafura Resources Limited. The ultimate Australian parent entity is Arafura Resources Limited which at 30 June 2019 owns 100% of the issued ordinary shares of Arafura Rare Earths Pty Ltd, Arafura Rare Earths Processing Pty Ltd, Arafura Land Holdings Pty Ltd and Arafura Iron Pty Ltd. The ultimate parent entity and ultimate controlling party is Arafura Resources Limited which at 30 June 2019 owns 100% of the issued ordinary shares of Arafura Rare Earths Pty Ltd, Arafura Rare Earths Processing Pty Ltd, Arafura Land Holdings Pty Ltd and Arafura Iron Pty Ltd.

(b) Subsidiaries

Interests in subsidiaries are set out in Note 23.

(c) Key management personnel

Disclosures relating to key management personnel are set out in Note 18.

(d) Transactions with related parties

There were no transactions with related parties in the year ended 30 June 2019.

(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.

(g) Terms and conditions

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 23: 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	
			2019 %	2018 %
Arafura Rare Earths Pty Ltd	Australia	Ordinary	100	100
Arafura Landholdings Pty Ltd	Australia	Ordinary	100	100
Arafura Iron Pty Ltd	Australia	Ordinary	100	100
Arafura Rare Earths Processing Pty Ltd	Australia	Ordinary	100	100

Note 24: Interests in joint ventures

The Company is involved in a joint venture with Thor Mining Plc ("Thor") of which Arafura holds 60% of EL 29701 and EL 32167 and Thor holds 40%.

Note 25: Events occurring after the reporting date

Arafura issued 273,491,090 new shares through a fully underwritten non-renounceable entitlement offer completed in July, which resulted in a capital raising of \$23.2 million (before costs). Talaxis Limited, a wholly-owned subsidiary of Noble Group Holdings Limited, agreed to sub-underwrite \$7.2 million. On the issue of shares under the fully underwritten entitlement offer, Talaxis emerged as a substantial holder with 5.23% of the total issued capital.

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect:

- the Group's operations in future financial years, or
- the results of those operations in future financial years, or
- the Group's state of affairs in future financial years.

Note 26: Share-based payments

Employee option plan

The establishment of the Arafura Resources Limited Employee Share Option Plan (ESOP) was approved by shareholders at the 2017 Annual General Meeting. The options are issued for nil consideration and are granted at the discretion of the Board.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 26: Share-based payments (continued)

The options cannot be transferred, are not quoted on the Australian Stock Exchange (ASX) and carry no dividend or voting rights. The exercise price is based on the weighted average price at which the Company's shares are traded on the ASX during a specified period immediately before the options are granted. Unless otherwise indicated, options become exercisable one year after the grant date and generally expire within 3 to 5 years after the grant date.

Once able to be exercised, options are exercisable at any time whilst the holder is employed by Arafura Resources Limited. When exercisable, each option is convertible into one ordinary share. Options may also be issued outside of the ESOP. These options are offered at the Directors' discretion to prospective employees as an incentive to commence employment with Arafura Resources Limited. Set out below are summaries of options granted and still outstanding at the beginning and/or end of the financial year:

Grant date	Expiry date	Exercise price	Balance at start of year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of year	Vested and exercisable at end of year
			Number	Number	Number	Number	Number	Number

Consolidated – 2019

30-Sep-14	30-Sep-18	\$0.105	3,150,000	-	-	(3,150,000)	-	
20-Nov-14	20-Nov-18	\$0.105	3,000,000	-	-	(3,000,000)	-	
31-Jul-17	30-Jun-21	\$0.150	1,965,000	-	-	(330,000)	1,635,000	545,000
31-Jul-18	1-Jul-22	\$0.120	-	14,605,000	-	(280,000)	14,325,000	
22-Nov-18	1-Jul-22	\$0.120	-	4,750,000	-	-	4,750,000	

Total			8,115,000	19,355,000	-	(6,760,000)	20,710,000	545,000
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Weighted average exercise price	\$0.12	\$0.12	\$0.00	\$0.11	\$0.12	\$0.15
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 26: Share-based payments (continued)

Black-Scholes Pricing Model	2017/2018	2018/2019 - Staff	2018/2019 - MD
Grant Date	31/07/2017	31/07/2018	31/07/2018
Date of Expiry	30/06/2021	01/07/2022	01/07/2022
Vesting trigger date	31/07 each year from 2018	01/07 each year from 2019	01/07 each year from 2019
Exercise Price	\$0.15	\$0.12	\$0.12
Share price (at issue date)	\$0.07	\$0.096	\$0.096
Risk free interest rate	1.85% - 2.00%	2.07% - 2.15%	2.04% - 2.12%
Volatility	72.43% - 74.57%	76.35% - 77.00%	72.38% - 74.41%
Years to Expiry	2.42 - 3.42 years	2.42 - 3.42 years	2.11 - 3.11 years
Number of Options Granted	2,055,000	14,605,000	4,750,000
Fair Value per right	\$0.016 - \$0.023	\$0.035 - \$0.043	\$0.014 - \$0.019
Total Fair Value	\$40,415	\$562,324	\$79,007

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

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.

The options and 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).

The Company has the option of deferral of performance-based remuneration and/or the reduction, cancellation or clawback of the performance-based remuneration in the event of serious misconduct or a material misstatement in the Company's financial statements.

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 current or future reporting periods are as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 26: Share-based payments (continued)

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 \$	Year lapsed options were granted
Directors of Arafura Resources Limited						
M Southey	-	-	-	-	-	-
G Lockyer	4,750,000	113,063	-	3,000,000	51,000	2015
C Tonkin	-	-	-	-	-	-
Q Zhang	-	-	-	-	-	-
T Grose	-	-	-	-	-	-
I Kowalick	-	-	-	-	-	-
Other key management personnel of the group						
P Sherrington	2,650,000	133,035	100,000	600,000	13,000	2015
R Brescianini	2,350,000	117,975	100,000	600,000	13,000	2015
B Fowler	2,200,000	110,444	100,000	600,000	13,000	2015
L Kaiser	2,250,000	112,954	100,000	300,000	6,500	2015
S Watkins	3,375,000	169,432	100,000	-	-	-

The assessed fair value at grant date of the options given 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 determined using the Black Scholes 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.

(b) Shares provided on exercise of remuneration options

No options were converted to shares by any Key Management Personnel during the 30 June 2019 financial year.

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

(c) Employee Share Scheme - Performance rights

Performance rights in Arafura Resources Limited are granted by the Board under the Arafura Resources Limited Performance Rights Plan which was last approved by shareholders at the 2017 annual general meeting.

Performance rights are issued for no consideration and vest according to a set of performance criteria being met. The vesting of the performance rights is determined at the board's discretion.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 26: Share-based payments (continued)

The Board approved a total of 10,000,000 performance rights to be offered to senior staff, senior management and the managing director. The managing director was issued 3,000,000 performance rights based on the approval received at the Annual General Meeting on 22 November 2018. These performance rights were granted in three tranches and will vest upon the successful completion of the following performance conditions:

1. Tranche 1- completion of the DFS within 25% or better of US\$680m Capex and \$35/kg NdPr Opex (excluding Phosphate credit) for the Company's Nolans NdPr Project and completion of an eligible service period of 24 months from the date the milestone is achieved.
2. Tranche 2- Grant of the Mining Lease from the Northern Territory Department of Primary Industry and Resources in relation to the Nolans NdPr Project and completion of an eligible service period of 24 months from the date the milestone is achieved.
3. Tranche 3- Project funding secured on term acceptable to the Board to enable project investment decision and completion of an eligible service period of 24 months from the date the milestone is achieved.

The Board has ultimate discretion on whether the performance hurdles have been met. Each Tranche of performance rights will (if not vested) lapse four years after the issue of those performance rights.

The performance rights have been valued at fair value using the share price at grant date. The performance rights are probability weighted to be 100%, 60% and 50% for Tranches 1 to 3 respectively as management's best estimate on the portion that will vest based on staff turnover. A summary of the performance rights issued during the year has been tabled below:

	Tranche 1	Tranche 2	Tranche 3
Grant Date	1/09/2018	21/09/2018	21/09/2018
Date of Expiry	21/09/2022	21/09/2022	21/09/2022
Vesting trigger date (estimate)	28/02/2019	01/04/2019	30/06/2019
Exercise Price	Nil	Nil	Nil
Share price at issue date and fair value per right	\$0.077	\$0.077	\$0.077
Years to Expiry	3.22 years	3.27 years	3.39 year
Number of Rights Granted	1,550,000	1,550,000	3,900,000
Total Fair Value	\$119,350	\$119,350	\$300,300

The key inputs for the valuation of the performance rights for the Managing Director are tabled below:

	Tranche 1	Tranche 2	Tranche 3
Grant Date	22/11/2018	22/11/2018	22/11/2018
Date of Expiry	22/11/2022	22/11/2022	22/11/2022
Vesting trigger date (estimate)	28/02/2019	01/04/2019	30/06/2019
Exercise Price	Nil	Nil	Nil
Share price at issue date and fair value per right	\$0.063	\$0.063	\$0.063
Years to Expiry	3.14 years	3.18 years	3.31 years
Number of Rights Granted	500,000	500,000	2,000,000
Total Fair Value	\$31,500	\$31,500	\$126,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 26: Share-based payments (continued)

The performance rights issued in the period to key management personnel are as follows:

Name	Number of performance rights granted during the year	Value of performance rights at grant date \$	Number of performance rights vested during the year	Number of performance rights lapsed during the year	Value of lapsed performance rights \$	Year lapsed performance rights were granted
<i>Directors of Arafura Resources Limited</i>						
M Southey	-	-	-	-	-	-
G Lockyer	3,000,000	189,000	-	-	-	-
C Tonkin	-	-	-	-	-	-
Q Zhang	-	-	-	-	-	-
T Grose	-	-	-	-	-	-
I Kowalick	-	-	-	-	-	-
<i>Other key management personnel of the group</i>						
P Sherrington	1,450,000	111,650	-	-	-	-
R Brescianini	1,000,000	77,000	-	-	-	-
B Fowler	1,000,000	77,000	-	-	-	-
L Kaiser	1,000,000	77,000	-	-	-	-
S Watkins	1,350,000	103,950	-	-	-	-

The milestone for Tranche 1 was successfully met on the 7th of February 2019, however will not vest for another 24 months from that date as per the service conditions attaching to the performance rights.

(d) 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:

	2019 \$	2018 \$
Options and performance rights issued under the executive & employee option plan and performance rights plan	538,127	24,800
	538,127	24,800

Note 27: Segment information

The company has identified its operating segments based on the internal reports that are reviewed and used by the board of directors in assessing performance and determining the allocation of resources. The reportable segment is represented by the primary statements forming this financial report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Note 27: Segment information (continued)

At the end of the financial year, the Group was operating primarily in one segment, as an exploration business in Australia.

Note 28: Parent entity financial information

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

<u>Arafura Resources Ltd (Parent)</u>	2019	2018
	\$	\$
Statement of Financial Position		
Current assets	5,458,489	8,082,770
Total assets	106,064,481	101,956,870
Current Liabilities	1,058,753	2,155,234
Total Liabilities	1,451,585	2,506,229
<i>Shareholders' Equity</i>		
Issued Capital	214,045,526	203,567,241
Reserves		
Option Reserve	12,213,590	11,675,463
Accumulated Loss	(121,646,220)	(115,792,063)
Loss for the year	(5,854,157)	(5,115,412)
Total comprehensive loss	(5,854,157)	(5,115,412)

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 to Note 20 for full disclosure of these items.

DIRECTORS' DECLARATION

Declaration by Directors

The Directors of the Company declare that:

- (1) The financial statements comprising the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows, Consolidated 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 other mandatory professional reporting requirements; and
 - (b) give a true and fair view of the financial position as at 30 June 2019 and of the performance for the year ended on that date for 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 29 to 43 of the Directors' report (as part of the audited Remuneration Report), for the year ended 30 June 2019 complies 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.



M Southey
Chairman
21 August 2019

INDEPENDENT AUDITOR'S REPORT

To the members of Arafura Resources Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Arafura Resources Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, 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 year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the Corporations Act 2001, including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Report section of our report. We are independent of the Group in accordance with the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accounting for Exploration and Evaluation Assets

Key audit matter	How the matter was addressed in our audit
<p>At 30 June 2019, we note that the carrying value of the Deferred Exploration and Evaluation Asset is significant to the financial statements, as disclosed in note 10.</p> <p>As the carrying value of the Deferred Exploration and Evaluation Asset represents a significant asset of the Group, we considered it necessary to assess whether any facts or circumstances exist to suggest that the carrying amount of this asset may exceed its recoverable amount.</p> <p>Judgement is applied in determining the treatment of exploration expenditure in accordance with Australian Accounting Standard AASB 6 Exploration for and Evaluation of Mineral Resources. In particular:</p> <ul style="list-style-type: none"> • Whether the conditions for capitalisation are satisfied; • Which elements of exploration and evaluation expenditures qualify for recognition; and • Whether facts and circumstances indicate that the exploration and evaluation assets should be tested for impairment. 	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining a schedule of the areas of interest held by the Group and assessing whether the rights to tenure of those areas of interest remained current at balance date; • Considering the status of the ongoing exploration programmes in the respective areas of interest by holding discussions with management, and reviewing the Group's exploration budgets, ASX announcements and directors' minutes; • Considering whether any such areas of interest had reached a stage where a reasonable assessment of economically recoverable reserves existed; • Verifying, on a sample basis, exploration and evaluation expenditure capitalised during the year for compliance with the recognition and measurement criteria of AASB 6; • Considering whether any facts of circumstances existed to suggest impairment testing was required; and • Assessing the adequacy of the related disclosures in Note 10 of the Financial Report.



Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors 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 preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.



Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 29 to 43 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Arafura Resources Limited, for the year ended 30 June 2019, complies with section 300A of the Corporations Act 2001.

Responsibilities

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.

BDO Audit (WA) Pty Ltd

BDO

A handwritten signature in black ink, appearing to read 'J Prue'.

Jarrad Prue

Director

Perth, 21 August 2019

SHAREHOLDER INFORMATION

OF ARAFURA RESOURCES LTD

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

1. Statement of issued capital at 19 August 2019:

a) Distribution of fully paid ordinary shareholders:

Size of holding	Number of shareholders	Number of shares
100,001 and Over	1,174	902,700,709
10,001 to 100,000	3,649	133,851,218
5,001 to 10,000	1,554	12,492,823
1,001 to 5,000	1,754	5,436,317
1 to 1,000	916	413,137
	<u>9,047</u>	<u>1,054,894,204</u>

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 19 August 2019, there existed 3,255 shareholders who held less than a marketable parcel of shares.

2. Substantial shareholders at 19 August 2019 as per their notices:

Name	Ordinary shares %
J P Morgan Nominees Australia Limited	14.11
ECE Nolans Investment Company Pty Ltd	10.40
Talaxis Ltd	5.23

SHAREHOLDER INFORMATION

OF ARAFURA RESOURCES LTD

3. Quotation

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

As at 19 August 2019, the twenty largest shareholders held 503,043,221 of the fully paid ordinary shares in Arafura Resources Limited and they are:

No.	Name	Shares	% of issued
1	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	148,882,685	14.11
2	ECE NOLANS INVESTMENT COMPANY PTY LTD	109,699,833	10.40
3	TALAXIS LTD	55,141,478	5.23
4	CITICORP NOMINEES PTY LIMITED	31,998,671	3.03
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	27,874,854	2.64
6	CS THIRD NOMINEES PTY LIMITED	26,116,368	2.48
7	CS FOURTH NOMINEES PTY LIMITED	16,763,543	1.59
8	BNP PARIBAS NOMINEES PTY LTD	13,566,011	1.29
9	BNP PARIBAS NOMS PTY LTD	10,792,921	1.02
10	MR JING WANG	8,687,271	0.82
11	1215 CAPITAL PTY LTD	8,163,881	0.77
12	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	7,112,179	0.67
13	BNP PARIBAS NOMS PTY LTD	6,959,557	0.66
14	KAOS INVESTMENTS PTY LIMITED	5,810,229	0.55
15	MR JIN KOO LEE	5,355,152	0.51
16	MR DAVID JOHN HARRISON	4,525,000	0.43
17	MR TIN SHEE CHEE & MRS YIN MUI CHEE	4,454,319	0.42
18	MR NICOLAS STOTT	4,000,000	0.38
19	PACIFIC ENERGY LIMITED	3,829,269	0.36
20	MR CHRISTOPHER DAVID JOHNSON	3,310,000	0.31
		<u>503,043,221</u>	<u>47.67</u>

SHAREHOLDER INFORMATION

OF ARAFURA RESOURCES LTD

Tenement reference	Project	Holder	Nature of interest	Interest at beginning of quarter	Interest at end of quarter	Notes
ML 26659 ML 30702 ML 30703 ML 30704	Nolans, NT	Arafura Rare Earths Pty Ltd	Mineral Lease	100% 100% 100% 100%	100% 100% 100% 100%	Application Lodged Application Lodged Application Lodged Application Lodged
EL 28473 EL 28498 EL 29509 EL 31224 EL 31284 EL 31957	Aileron– Reynolds, NT	Arafura Resources Ltd	Exploration Licence	100% 100% 100% 100% 100%	100% 100% 100% 100% 100%	
EL 29701	Bonya JV, NT	Arafura Resources Ltd	Exploration Licence	60%	60%	Thor Mining Plc 40%, Arafura Resources Limited 60%
EL 32167	Jervis Vanadium, NT	Arafura Resources Ltd	Exploration Licence	-	60%	Thor Mining Plc 40%, Arafura Resources Limited 60% EL 32167 created from division of EL 29701