ARAFURA
RESOURCES LIMITED

AN EMERGING
RARE EARTHS
PRODUCER
FOR USERS
WORLDWIDE

Arafura Resources Limited

ABN 22 080 933 455

Annual Report

30 June 2014

Registered Office and Principal Place of Business

Level 5
16 St Georges Terrace
Perth
Western Australia
Australia
6000

CONTENTS

CORPORATE DIRECTORY

Directors	Ian Kowalick (Chairman and Non-Executive Director) Gavin Lockyer (Managing Director and Chief Executive Officer) Chris Tonkin (Non-Executive Director) Shasha Lu (Non-Executive Director) Terry Grose (Non-Executive Director)
Company Secretary	Peter Sherrington
Annual General Meeting to be held at	Duxton Hotel, (Room: Duxton 3) 1 St George’s Tce, Perth, Western Australia
Time	10.00am (WST)
Date	Thursday, 20 November 2014
Principal registered office in Australia	Level 5, 16 St Georges Terrace Perth Western Australia 6000
Share registry	Security Transfer Registrars Pty Ltd 770 Canning Highway Applecross Western Australia 6153
Auditor	BDO Audit (WA) Pty Ltd 38 Station Street Subiaco Western Australia 6008
Solicitors	Johnson Winter and Slattery Level 4, 167 St Georges Terrace Perth Western Australia 6000

CORPORATE DIRECTORY

Bankers	Westpac Banking Corporation 109 St Georges Terrace Perth Western Australia 6000
Stock exchange listing	Arafura Resources Limited shares are listed on the Australian Stock Exchange under the ticker code “ARU”.
Website address	www.arafuraresources.com.au

CHAIRMAN'S REPORT

Dear Shareholder

In presenting the Arafura Resources Annual Report for the 2014 financial year I can report on good technical progress and enhanced project economics. However, I must acknowledge that in the last year developments in the rare earths market, and difficulties encountered by other companies as they start production, have created uncertainty about the global rare earths sector as an investment opportunity. These developments have also negatively impacted some rare earths prices. Nevertheless, the medium outlook for rare earths is very good.

The predominance of Chinese rare earths production, and speculation about how China will respond to the World Trade Organisation (WTO) ruling on rare earths exports, creates uncertainty about the supply side of the market. Further uncertainty arises from China's rare earths sector (and the broader resources industry) undertaking a major consolidation program. The Chinese Government is also enforcing much tougher environmental regulation of mining and stopping the illegal export of rare earths.

These uncertainties about Chinese supply are exacerbated by difficulties being encountered by the newer non-Chinese suppliers with their refining processes that have often failed to deliver the efficiency or quality of output that was expected.

The specific uncertainty about rare earths investments, together with the wider downturn of support for new projects in the resources sector in Australia and globally, have all contributed to the challenges to project funding.

In response to these challenges, the Arafura team has worked hard to deliver very large capital, operating and corporate cost savings. The importance of these savings cannot be understated. These savings reinforce the good economics of the Nolans Project and preserve cash reserves. The team had a "year of action" making the hard decisions to provide an excellent base from which to grow the Company as it moves closer towards first production at the Nolans Project.

I am encouraged by recent tentative, but positive, developments in the Australian equities market for resource companies, with feedback indicating greater investor optimism and improved support for capital raisings. However, it is still a comparatively difficult market, and the market for investment funds is now asking:

"Why should investors expect Arafura to avoid the same efficiency and quality issues as other emerging rare earths suppliers?"

The Company has a strategy to deal with this fundamental question.

It is sufficiently funded to continue with the initiatives that have so far helped to significantly de-risk the Nolans Project, with potential room for further savings particularly from our strategic alliances with Chinese partners: East China Mineral Exploration and Development Bureau ("ECE") and Shenghe Resources and its subsidiary Sheng Kang Ning (Shanghai) Mining Investment Co ("SKN").

The work being conducted by Chinese partners will not only deliver further improvements to the process but, most importantly, their input and experience will validate Arafura's process to financial markets.

CHAIRMAN'S REPORT

The fundamental drivers of demand for rare earths in the medium-term remain positive and supportive of robust growth. Rare earths remain on the critical supply list of the US Department of Energy and by the European Union, and there has never been a better time for rare earths end users to source a secure and steady supply.

This provides a great opportunity for Arafura and the Nolans Project as the world economy emerges from the downturn of the last few years.

MAGNET LEVERAGE

Rare earths have for some time been identified as strategic minerals due to their usage in a variety of applications, such as renewable energy - electric vehicles and wind generation - smartphones, tablets and consumer electronics. For some products there is no viable alternative to rare earths, but in other cases there are substitutes.

Of particular importance to Arafura is the permanent magnet market where there are no good substitutes for rare earths. The recent Nolans Development Report shows the Project has the highest magnet leverage of any rare earths project in the world through its Neodymium and Praseodymium (NdPr). These rare earths are critical to the production of these magnets, which have a wide variety of applications including consumer electronics, hybrid technology, MRI machines, wind turbines and the automotive industry, with a normal four-seater vehicle using approximately 27 magnets in its make-up.

Nolans NdPr quotient has been estimated to generate 77% of revenue, providing Arafura with substantial exposure to the fast growing permanent magnet market, which is forecast to be growing at a conservative 10% per annum. Experts have projected the permanent magnet market to be worth US$20 billion in the latter part of this decade, when Nolans is expected to be in production.

THE ROAD AHEAD

Whilst short-term negative perceptions have presented challenges to Arafura's story, the Company is well positioned to capitalise on the medium- to long-term fundamentals of rare earths demand.

The Company is sufficiently funded to continue with initiatives that de-risk the Nolans Project, with the potential for further savings from our strategic alliances with Chinese partners ECE, Shenghe and SKN.

The development of the Nolans Project has been a long journey due to the impact of the Global Financial Crisis, which created uncertainty in the demand and supply sides of rare earth markets, and disrupted traditional project funding.

Whilst the development of the Project has taken longer than originally expected, it is among the best future prospects for rare earth supply because of the nature of the resource, its location near critical infrastructure and the fact that (unlike many other rare earth projects) Arafura has demonstrated, at a non-trivial scale, the ability to process rare earths to the standards demanded by the customers.

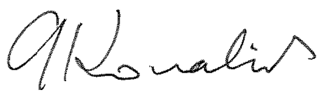
The Company's Chinese partners, who have long-term experience in the rare earths market and processing, have, as part of their contribution, validated the conclusion that the Nolans Project is of significance in the future supply of rare earths to world markets.

CHAIRMAN’S REPORT

THANK YOU

I would like to thank our valued shareholders for their continued support of Arafura. I look forward to reporting how, in the coming year, management’s ongoing hard work have further advanced the Nolans Project.

Yours sincerely,



Ian Kowalick

Chairman

MANAGING DIRECTOR'S REVIEW

I am pleased to report that the 2014 financial year was a period of considerable and important progress on both an operational and corporate level at Arafura Resources Limited. Despite the ongoing challenge of cyclically low rare earth ("RE") prices, the Company remains in a strong position with a capable and focused Board and management team overseeing the development of an economically robust, world-scale RE project in an OECD country.

This foundation is geared towards the Company's medium-term goal of commencing production at the Nolans Rare Earths Project in the Northern Territory in the latter part of this decade. On completion of this goal, Arafura will stand as one of the world's largest RE producers, with the capacity to meet approximately 10% of global demand.

Nolans is a uniquely advanced project with a de-risked path to production through alliances with key strategic Chinese partners who provide access to significant RE processing expertise that is proving invaluable as the Company seeks to further optimize the Project. Technical de-risking of the Nolans processing flowsheet and having a clear and proven path to market are two critical factors for the successful development of RE projects outside China.

I firmly believe this sets Arafura apart from its peers, along with the ongoing extensive Project and commodity research and development that will see Nolans add a premium value to its product range through the critical RE separation process. Arafura remains one of the very few companies that has produced significant quantities of high value rare earth oxide ("REO") products from ore that have been validated by customers.

In addition, Arafura has used conservative growth and revenue assumptions for the financial modeling of Nolans. These assumptions are focused on five REO and an RE carbonate product that form the basis of commercialising the Project. This approach allows potential financiers and investors to model potential "real" returns from the Project, and differentiates Arafura from others that adopt the more favorable in-situ basket price of individual REOs that does not consider actual production volumes and product specifications.

Since outlining targets early in 2012/13 to substantially reduce the development and operating costs of the Nolans Project, the Arafura team has executed cost-saving initiatives that have achieved a number of significant milestones during 2013/14.

KEY OPERATIONAL HIGHLIGHTS

Reduction of Nolans Capital Expenditure – over the past year, the cost of constructing the Project has significantly reduced by 27% or A$504 million on the August 2012 Base Case capital estimate, to A$1,408 million. The cost savings have primarily been realised through relocating the RE Intermediate and RE Separation plants, adopting selective mining practices during the first ten years of operation and simplifying the process configuration.

Reduction of Nolans Operating Expenditure – the cost of processing and producing REs is now estimated at A$15.67/kg of REO based on annual REO equivalent production of 20,000[1] tonnes. This is a decrease of approximately 24%, or A$98 million per annum since August 2012. The reduction has been achieved through greater efficiencies in beneficiation, RE extraction and separation, and simplification of the supply chain.

1 Production target basis is Measured and Indicated Resources at Nolans Bore (Page 10)

MANAGING DIRECTOR'S REVIEW

Appointment of Key China Consultant – Arafura continues to de-risk the Nolans Project through its strategic alliances. To this end, the Company recently appointed Shenghe Resources subsidiary SKN to assist with managing the Chinese optimisation program and completing the Nolans definitive feasibility study ("DFS"), currently scheduled before the end of calendar 2015. SKN will also help investigate and secure potential funding and marketing opportunities for Arafura.

The Nolans Development Report – this report is an update on the August 2012 Base Case report and provides a comprehensive overview of the economics of the Nolans Project plus an up-to-date analysis of the RE sector and forecasts on supply and demand. We are firmly of the view that Nolans is economic on conservative assumptions used to estimate the Project's Net Present Value ("NPV"), which is now at A$2 billion, the Internal Rate of Return ("IRR") of 21.4%, and a payback period within five years. The report also highlights the Company's path to project execution and production in 2019.

Identification of a suitable, sustainable water resource – extensive drilling, pumping and monitoring has identified an extensive groundwater resource in the vicinity of the Nolans Mine and Processing sites. This aquifer has previously not been explored and has very limited competing use. Arafura is undertaking steps to secure these water rights, and our work continues to focus on establishing the long-term sustainability of this water supply.

Significant reduction in corporate costs – over the past year, Arafura has substantially reduced expenditure at a corporate level, with average overhead costs reduced from $423,000 per month in August 2012 to a current level of $283,000 per month, with room for additional reductions following the relocation of the Company's head office

LOOKING AHEAD

Arafura starts the new financial year in a strong position to capitalise on the extensive work undertaken at Nolans in recent years.

Offtake and funding negotiations will be the focus this year as well as securing a suitable offshore site for the RE Separation Plant. Commencement of detailed engineering design is targeted for the first quarter 2015.

These activities will run parallel to the ongoing Feasibility Study, which is at an advanced stage. Environmental studies over the Nolans Processing Site and associated access corridors will begin to accelerate and dovetail into the more advanced on-ground studies over the Nolans Mine Site.

I also look forward to presenting you the completed optimisation study by our Chinese RE experts, which has the potential to provide further capital and operating cost savings.

While Arafura remains in an enviable financial position with $24.5 million in cash as at the end of the 2014 financial year, the Company continues to execute prudent management of its financial resources on its path to commercialising the Nolans Project.

MANAGING DIRECTOR'S REVIEW

THANK YOU

Arafura has had an outstanding year and is well positioned – both financially and operationally – to continue commercialisation of Nolans until development. It would be remiss of me to neglect to acknowledge the significant contributions made by the members of the Board, management team and employees, all of whom have been very supportive in my first full year as Managing Director. I would also like to thank our shareholders for their support and patience over recent years. I believe the results in 2013/14 will set the foundation for even better results in the years to come.

Yours sincerely,

Gavin Lockyer
Managing Director

OPERATIONS REVIEW

NOLANS RARE EARTHS PROJECT

For the 2014 financial year reporting period, Arafura has further intensified its ongoing work towards the development and commercialisation of the Nolans Rare Earths Project.

This followed the market release in the previous financial year of results from a trade-off study that highlighted various process initiatives and reconfiguration options that would further enhance the economics of the Project on the August 2012 Base Case. From this the Company set itself a target to reduce the capital requirement by between A$500 million and A$1,000 million and commensurate material operating cost reductions.

During the reporting period, Arafura launched a number of studies and initiatives to achieve these targets. The results have begun to emerge and there is scope to further reduce capital and operating costs.

Notable achievements include:

- Capital reduced by A$508 million on the August 2012 Base Case;
- Corresponding reduction in operating costs of A$4.88/kg to arrive at a very competitive $15.67/kg of REO;
- Appointment of Shenghe Resources subsidiary SKN to assist with the completion of the Nolans definitive feasibility study;
- Solid progress in offtake arrangements with strategic partners and end users;
- Progress on securing a groundwater supply for the Nolans Project; and
- Release of the comprehensive Nolans Development Report.

The Nolans Project feasibility study is well advanced. Arafura expects to commence construction of the Project in mid-2016, with operations anticipated to start towards the end of 2018. The Company aims to produce 20,000 tonnes equivalent of rare earth oxide products each year, representing approximately 10 per cent of the world's supply. This would position Arafura as a leading rare earths producer.

CHINESE ALLIANCES

Before the close of the 2014 financial year, Arafura appointed China-based mineral investment and services company Sheng Kang Ning (Shanghai) Mining Investment Co. Ltd ("SKN") to assist with the management of its flowsheet optimisation program in China and the completion of the Nolans Project definitive feasibility study ("DFS").

SKN is a 90% owned subsidiary of Shenghe Resources Holdings Co. Ltd ("Shenghe"), a Shanghai Stock Exchange-listed industry leader in rare earths ("RE") mining, processing, manufacturing and technology development. It currently sells RE products into the Chinese domestic and international markets. In September 2013, Arafura and Shenghe signed a Memorandum of Understanding ("MOU") with the aim of accelerating the development of Nolans.

The appointment of SKN - whose business objectives include global mineral investment, project development and equity investment - is an important step in formalising arrangements to establish a long-term strategic partnership between Shenghe and Arafura. Services provided by SKN as part of the appointment include introducing the Company to China-based organisations that can assist with the completion of the Nolans DFS, and investigating potential sources of investment and funding.

OPERATIONS REVIEW

The Shenghe and SKN agreements bolster Arafura's existing strategic Chinese partnership with the East China Mineral Exploration and Development Bureau ("ECE"), which continues to hold a 24.86% position in the Company.

SIGNIFICANT NOLANS COST SAVINGS

During the period, Arafura made substantial progress towards enhancing the economics of the Nolans Project. The work in reducing operating ("OPEX") and capital costs ("CAPEX") of the Project followed the completion of a trade-off study in April 2013. This included relocating the Project's RE Intermediate Plant to the Nolans Site in the Northern Territory and the decision to locate the RE Separation Plant offshore alongside an established chemical precinct.

CAPEX savings of between A$500 million and A$1,000 million were targeted by the Company, and during the 2014 financial year, Arafura twice announced reductions in both CAPEX and OPEX.

CAPITAL AND OPERATING COST REDUCTIONS ACHIEVED

Nolans CAPEX has been reduced to A$1,408 million, inclusive of indirect and owner's costs, and a 15% contingency. This estimate excludes A$197 million of costs which the Company has deferred by adoptive selective mining practices during the first ten years of operation.

A comparison between the most recent estimates and the August 2012 Base Case OPEX and CAPEX estimates are shown in the table below. These estimates and the annual rare earths oxide ("REO") equivalent production of 20,000 tonnes are underpinned by the Measured and Indicated Resource base for Nolans Bore. Total resources at Nolans Bore currently stand at 47 million tonnes at 2.6% REO for 1.22 million tonnes of contained REO.

Resources	Tonnes (million)	Rare Earths % REO	Tonnes REO	Phosphate % P_2O_5	Uranium % U_3O_8
Measured	4.3	3.3	144,000	13	0.03
Indicated	21	2.6	563,000	12	0.02
Inferred	22	2.4	511,000	10	0.02
TOTAL	**47**	**2.6**	**1,217,000**	**11**	**0.02**

1% REO cut-off grade

Nolans Bore Mineral Resources as at June 8, 2012

In the 2014 financial year, Arafura also announced a revised Nolans Project OPEX, now estimated to be A$15.67/kg of REO. This represents a reduction of approximately 24% (or A$98 million per annum) on the August 2012 Base Case estimate.

Key factors in OPEX reduction include:

- Improved beneficiation performance and adoption of selective mining practices;
- Transport and logistics savings by relocating the RE Intermediate Plant to the Nolans Site; and
- Placement of the RE Separation Plant in an offshore location close to the supply of key reagents.

OPERATIONS REVIEW

	August 2012 (A$)	June 2014 (A$)	Savings (A$)
NOLANS CAPEX	$1,912 million	$1,408 million	$504 million
NOLANS OPEX	$20.55/kg REO	$15.67/kg REO	$4.88/kg REO

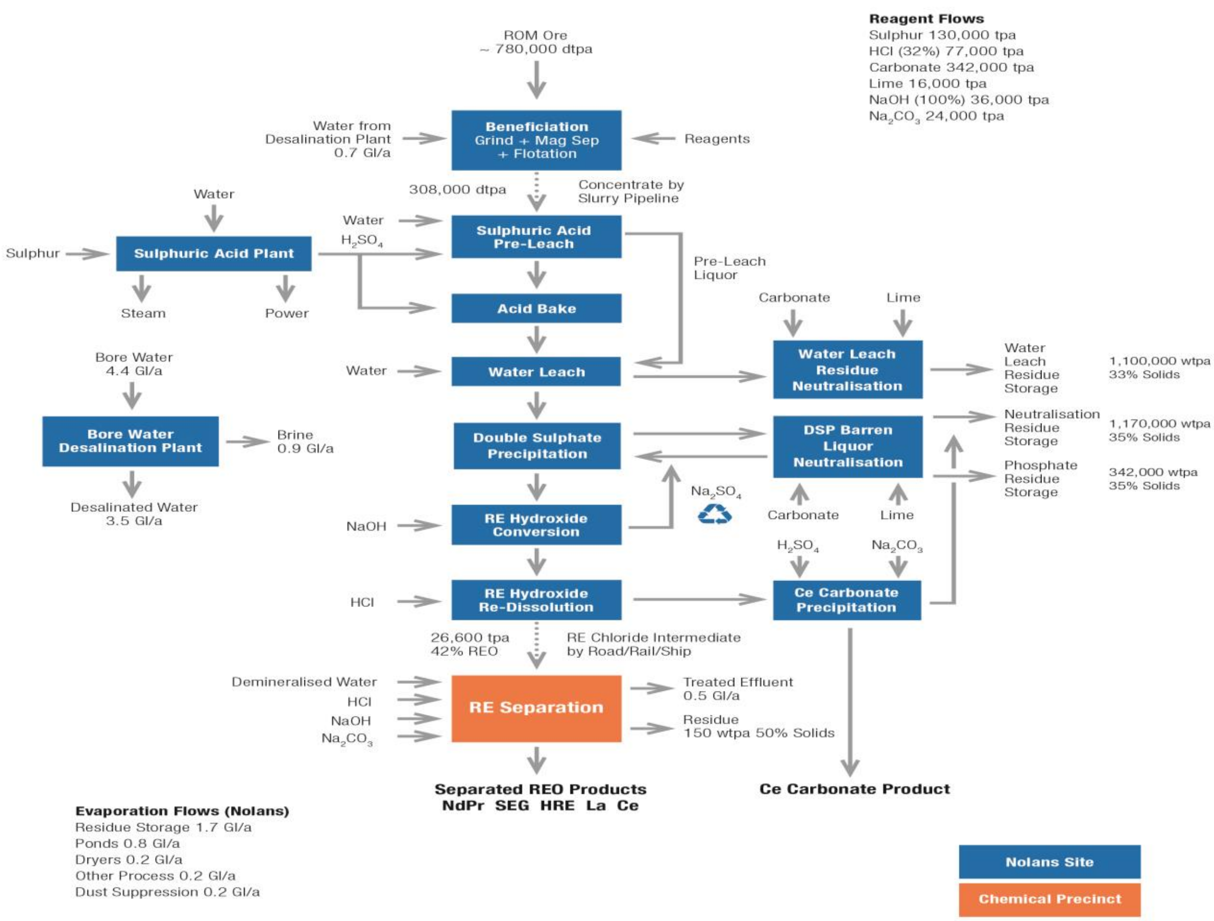
Nolans Capital and Operating Cost Savings

SIMPLIFIED FLOWSHEET

In July, Arafura presented an overview of its simplified sulphuric acid pre-leach ("SAPL") - double sulphate precipitation ("DSP") process flowsheet, which has a significant effect on reducing CAPEX and OPEX.

Savings have been achieved through:

- Replacing the hydrochloric acid pre-leach stage with SAPL, reducing project complexity;
- Improving the RE extraction and impurity removal capabilities with a DSP circuit that has simplified plant design, reduced OPEX and increased RE recovery targeting neodymium ("Nd") and praseodymium ("Pr"); and
- Including cerium oxidation in the RE extraction flowsheet to produce a cerium carbonate product at the RE Intermediate Plant. This lowers the amount of feed material to the RE Separation Plant, further reducing CAPEX and OPEX.



Nolans Project Simplified Flowsheet

RE SEPARATION PLANT CAPEX & OPEX ESTIMATES

An engineering cost study for the RE Separation Plant was completed at an accuracy of +/-25%. This work was based on the RE Separation Plant being located in the Gulf Coast region of the USA, and has provided the Company with a detailed understanding of infrastructure and reagent requirements, and other key cost drivers.

The RE Separation Plant will likely be placed offshore, but a decision on its final location has yet to be made.

FURTHER CAPEX & OPEX REDUCTIONS ACHIEVABLE

Arafura expects to announce further reductions in Nolans Project capital and operating expenditures following the completion of its flowsheet optimisation program. The Company is undertaking this work in partnership with Chinese RE experts that were introduced to the Company by its major shareholder ECE.

BENEFICIATION OPTIMISATION PROGRAM

The Company recently met with representatives of the Institute of Multipurpose Utilisation of Mineral Resources and the Chengdu Analytical and Testing Centre for Minerals and Rocks in Chengdu, China, to review the final results of the Stage 1 beneficiation optimisation program. Not only did this work validate Arafura’s Australian-based development program, it also identified a number of opportunities to further simplify the flowsheet. CAPEX and OPEX savings arising from the Chinese program will be quantified during Stage 2 of the program.

Beneficiated material from this program has been prepared and will be used as feed stock for the downstream hydrometallurgy optimisation program.

HYRDROMETALLURGY OPTIMISATION PROGRAM

Arafura has engaged with a number of China-based organisations with significant experience in RE extraction and purification R&D to agree a scope of work and discuss proposed commercial terms for the hydrometallurgy optimisation program.

WATER EXPLORATION

The Company successfully completed the second stage of exploration and investigation drilling of a previously unexplored water basin approximately 20 kilometres southwest of the Nolans Site. Arafura is confident that a sustainable water supply has been defined to support the Mine, Concentrator and RE Intermediate plant facilities at Nolans.


Groundwater drilling in the Whitcherry Basin 20 kilometres south-west of the Nolans Processing Site

Arafura is in advanced discussions with Northern Territory Government regulators to agree on a process aimed at securing long-term water extraction rights for the Nolans Project.

There are limited competing users in the region that could draw water from this extensive new groundwater system. Its discovery by Arafura mitigates a major operational and stakeholder risk for the Project as it reduces the requirement for the Project to access water from the Ti Tree Water Control District, upon which future horticultural and pastoral expansion is dependent.

RARE EARTHS MARKET

The 2014 financial year has exposed some perceived negative influences in the global RE industry that continue to impact the market in the short-term. These influences include uncertainty over China's response to the World Trade Organisation ("WTO") rulings, consolidation of China's RE processing capacity and start up of non-Chinese production facilities.

The influences have weighed negatively on current RE prices, particularly in the second half of the 2014 financial year, however the fundamentals that drive medium- to long-term demand remain unchanged.

In addition, recent developments have pointed to a forecast pick up in RE prices. This has been verified by Arafura's strategic partner Shenghe Resources that recently reported an uptick in downstream demand. Factors driving this include China's continued efforts in curbing environmental pollution, the elimination of outdated RE capacity and the crackdown on the illegal smuggling of REs. Combined with this are reports the USA is making moves to decrease its reliance on Chinese REs by increasing domestic production and re-establishing an RE supply chain.

OPERATIONS REVIEW

SUPPLY AND DEMAND

The influences and factors reinforce forecasts that global demand for REs will grow at an annual rate of six-to-seven percent between 2014 and 2020. This demand is increasingly being driven by technological innovation, particularly with the surging use of consumer electronics such as smart phones and tablets, and industrial and clean energy sectors. The current global market is estimated to be valued at US$3-5 billion.

Several of the REs that are in high concentration within the Nolans Bore deposit (neodymium, europium, terbium, dysprosium and yttrium) continue to be listed as "Critical Rare Earths" by both the USA and the European Union.

Of particular interest to Arafura is the RE magnet market. Rare earth magnets are used in a wide variety of applications including the automotive industry, hybrid technology, consumer electronics and wind turbines.

The Nolans Project has one of the highest magnet leverage of any RE development in the world through its NdPr product. NdPr Oxide is estimated to generate 77% of Nolans revenue. This provides Arafura with substantial exposure to the rapidly expanding RE magnet market, which is forecast to grow at 10% per annum, and estimated to be worth over US$20 billion by 2018.

Market Segment	Driver	Market Share by Value	Demand Growth[1]	Arafura's RE Products	Revenue Contribution[2]
Magnets	**Automotive, Wind Energy**	**63%**	**10%**	**NdPr**	**77.0%**
				HRE	4.1%
Phosphors	Electronics, Lighting	8%	4%	SEG	6.1%
				HRE	0.3%
Metal Alloys	Various	8%	6%	HRE	0.5%
				SEG	0.2%
Polishing & Glass	Optics, UV Filtering	7%	4%	SEG	4.6%
				Ce	1.4%
Ceramics	Electronics	5%	5%	HRE	0.3%
Batteries	Automotive, Electronics	5%	7%	La	0.5%
Catalysts	Emissions Controls, Oil Refining	4%	5%	Ce	1.4%
				La	2.1%

[1] CAGR over 2014-2020 forecast period
[2] Contribution to Revenue from RE Product sales into target Market Segment

Nolans Product Range geared for Growth Markets

CUSTOMERS

The Nolans Project has the potential to meet up to 10% of the world's RE demand, and Arafura intends to be a key supplier to key high growth market segments in Europe, Japan, South Korea and the USA.

OPERATIONS REVIEW

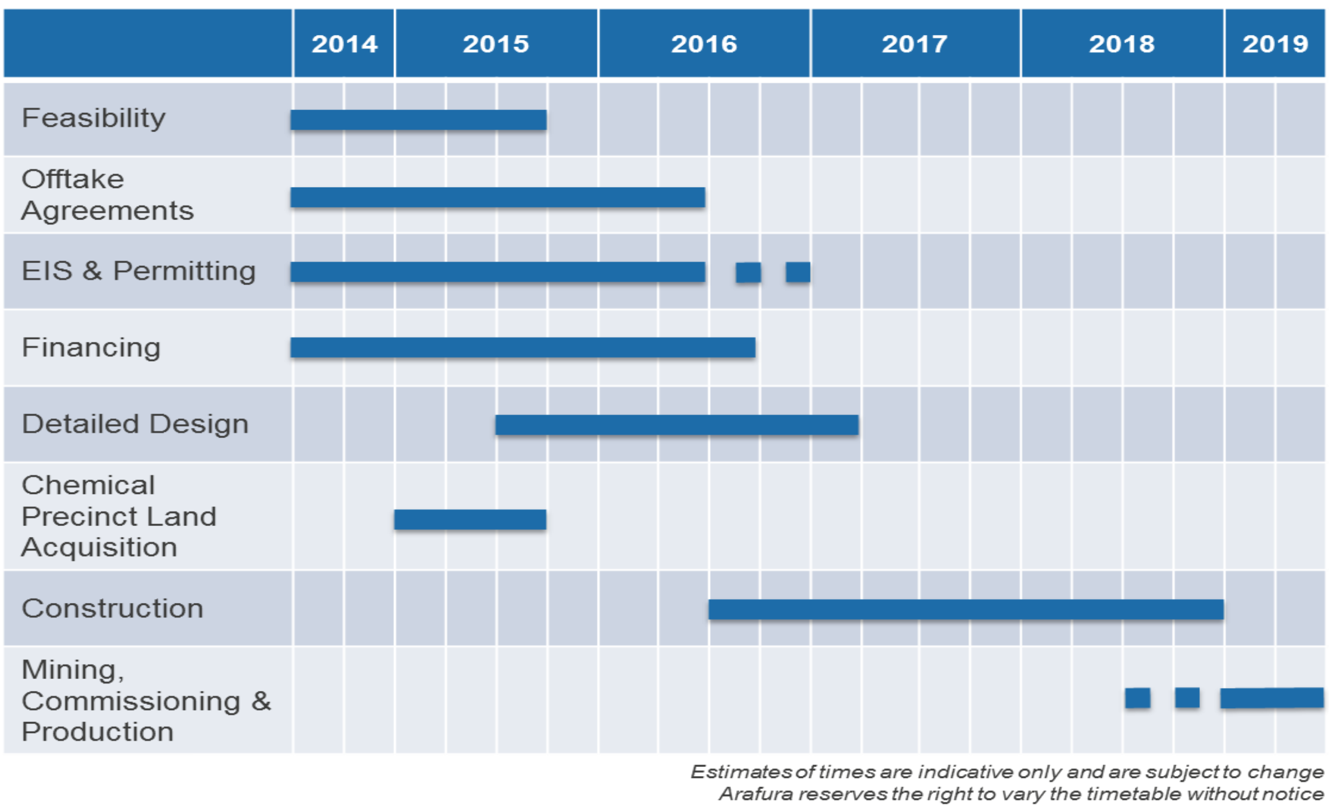
The Company has been successful in producing five high-purity separated REO products, which is a significant point of difference between Arafura and its industry peers worldwide.

These five REO products are NdPr (or Didymium) Oxide, SEG (samarium-europium-gadolinium) Oxide, HRE (heavy RE-yttrium) Oxide, Lanthanum Oxide and Cerium Oxide. Samples of all five products have been subjected to pre-qualification testing by key customers.

Arafura continues to advance offtake discussions with prospective customers, including German conglomerate ThyssenKrupp.

TIMELINE

Arafura anticipates development of Nolans to commence in 2016 with mining operations to begin in the second half of 2018.



Nolans Summary Schedule

EXPLORATION

Arafura's strategy includes generating and testing RE exploration targets on its cornerstone Aileron-Reynolds land package, commencing with those in closest proximity to the Nolans Site. The Company is also undertaking exploration for extractive minerals, including carbonate and clay, to support some the raw material demands of the Nolans operation.

Arafura Geologist Rod Dean evaluating carbonate horizons 20 kilometres north-west of the Nolans Mine Site

In regards to non-core exploration properties, the Company has successfully farmed several out to junior explorers that focus on commodities other than REs.

YALYIRIMBI

Ferrowest Limited (ASX: FWL) is progressing work in relation to the Yalyirimbi Iron Project to earn up to a 60% interest in Arafura's iron ore rights on EL 24548 (Aileron-Reynolds Project) through an incorporated joint venture. Arafura's iron rights are held through Arafura Iron Pty Ltd ("AIPL").

In December 2013 Ferrowest announced an estimate of Indicated and Inferred Mineral Resources for Yalyirimbi. Ferrowest is in the process of securing a 51% shareholding in AIPL and will also nominate two directors for appointment to its Board.

JERVOIS

Rox Resources Limited (ASX: RXL) is progressing work on EL 29701 to earn up to a 70% interest in the base and precious metals mineral rights (Cu-Pb-Zn-Ag-Au-Bi-PGE).

Rox has successfully identified a number of significant electromagnetic anomalies that could represent accumulations of copper sulphide mineralisation. A drill program targeted at testing these anomalies is scheduled to commence in the third quarter of 2014.

OPERATIONS REVIEW

MT PORTER

Ark Mines Ltd (ASX: AHK) is now progressing work to earn up to a 70% interest in the Company's 100 per cent-owned Mt Porter tenements and in Arafura's gold interests at Frances Creek.

Arafura has agreed to extend, until 26 December 2014, the period for Ark to undertake its minimum obligations under the Mining, Farmin and Joint Venture agreement dated 14 January 2014 ("Agreement"). Ark has raised $285,000 by way of a placement to fund a drilling program and in order to meet the minimum obligation under the Agreement.

A summary of Arafura held tenements on active exploration projects is listed below:

Rare Earths, Iron, Extractive Minerals
Aileron-Reynolds (100% Arafura)

Location	Reynolds Range, about 135 km north-north-west of Alice Springs.
Area Size	2,381 km^2
Granted Tenements	EL 24548, EL 24741, EL 27337, EL 28473, EL 28498, EL 29509
Tenement Applications	ML 26659, EL 30160, EMEL 30510

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

Location	290 km north-east of Alice Springs
Area Size	279 km^2
Granted Tenements	EL 29701

Gold
Mt Porter (100% Arafura)

Location	Pine Creek region, about 170 km south-east of Darwin
Area Size	25.3 km^2
Granted Tenements	ML 23839, ELR 116, EL 23237
	Arafura also holds gold exploration and development rights on a number of adjoining tenements held by Territory Resources Limited and Frances Creek Pty Ltd (MA 389, EL 10137, MLs 25087, 25529, 27227, 27229 and 29930, and parts of MLs 24727, 25088, 27225, 27226, 27228 and 27230).

OPERATIONS REVIEW

Disclaimer

Important Notice

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

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

The information in this Operations Review relates to exploration results, mineral resources or ore reserves based on information compiled by Mr Richard Brescianini BSc (Hons).

Mr Brescianini is a Member of the Australian Institute of Geoscientists and he has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (The JORC Code)".

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

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Arafura Resources Limited and the entities it controlled at the end of, or during, the year ended 30 June 2014.

Directors

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

I. Kowalick
C. Tonkin[(1)]
S. Lu
T. Grose
G. Lockyer[(1)]

Other Details

[(1)] Mr Chris Tonkin stepped down as Managing Director and Chief Executive Officer on the 23rd of July 2013. Mr Gavin Lockyer was appointed to the position as Mr Tonkin reassumed the position of Non-Executive Director.

Principal activities

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

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

Dividends – Arafura Resources Limited

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

Operating and financial review

The loss of the Group for the year after income tax was $6,881,137 (2013: $11,762,148). Excluding significant one-off non-cash impairment items this financial year of $1,171,129 (2013: $7,718,528) the Groups' loss would be reduced to $5,710,008 (2013: $4,043,620). The increase in the adjusted loss is largely explained by reduced interest income as Arafura drew down on its cash reserves throughout the year to fund it's optimisation programs and working capital requirements. In addition, Arafura significantly reduced its spend on eligible R&D items in the 2012/13 financial year when compared to the 2011/12 financial year. As the R&D rebate is typically received in the subsequent financial year to which the costs were incurred, the reduced spend in 2012/13, meant that the R&D receipt received in 2013/14 was significantly lower, effecting both the capitalised and non-capitalised portions. This is best evidenced with reference to Arafura's Consolidated Statement of Cash Flows and actually shows the Group made significant cash savings across the board, with a particular focus on administrative type activities. An example to support this conclusion is yet another decrease of $734,462 in 'payments to suppliers and employees' (2013: $2,548,855 decrease).

The Company remains cognisant that progression of the Nolans Project is paramount to the Company, its shareholders and stakeholders. Arafura continues to conserve cash whilst it manages the optimisation programs with Shenghe Resources Holding Co. Ltd. Whilst Arafura continues to make corporate and working capital savings, the collaborative arrangement between Arafura and Shenghe is aimed at making further reductions in project savings via reductions in both Operating and Capital expenditure.

As noted above, Arafura received this financial year a Research and Development ("R&D") incentive rebate totalling $4,060,814 (2013: $22,537,747). The rebate strengthens Arafura's financial position, ensuring that the Company has the capacity to continue investigating further technology and optimisation initiatives as promoted by the Australian Government. The rebate initiative by the Australian Tax Office will continue into the 2015 financial year and will help provide further assistance to Arafura in R&D activities.

Significant changes in the state of affairs

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

(a) Mr Lockyer was appointed to the position of Managing Director and Chief Executive Officer on the 23rd of July 2013 taking over Mr Tonkin. Mr Tonkin has since resumed his role as Non-Executive Director.

(b) On the 10th of September 2013 Arafura announced that it had executed a Memorandum of Understanding with Shenghe Resources Holding Co. Ltd ("Shenghe"). The arrangement stipulates that both parties will work together to achieve a range of objectives relating to the potential development of the Nolans Project and to continue to build a strategic long-term partnership. The most current objective is for Shenghe to conduct scheduled reviews of the Nolans Project with the aim of identifying cost savings in operating and capital expenditure and to also provide further assistance and technical expertise. The outcomes of the current program will be released when received and analysed by the Company.

(c) Arafura received on the 22nd of May 2014 a cash injection of $4,060,814 (2013: $22,537,747) which relates to an Australian Government rebate of 45 cents in every dollar spent on eligible R&D activities. The incentive is a jointly administered program between AusIndustry and the Australian Taxation Office. Due to a change in legislation, the rebate percentage applied to eligible R&D expenditure will fall from 45% to 43.5%. The change will be effective for rebates received in the 2015 financial year.

(d) On the 20th of March 2014, Arafura announced to the market the results of several initiatives aimed at driving down the Nolans Project capital and operating expenditure. The results had been formed prior to factoring in any improvements from the Chinese optimisation programs being run and produced savings of AUD$504 million in capital expenditure and AUD$4.88 per kg of REO in operational savings. As at March 2014, the estimated capital cost of Nolans stood at AUD$1,408 million with the estimated production cost of a kilo of REO at AUD$15.67. Further savings are expected upon receipt and analysis of data from Chinese experts Shenghe Resources Co. Ltd ("Shenge").

Matters subsequent to the end of the financial year

On the 2nd of July 2014, Arafura announced the appointment of Sheng Kang Ning (Shanghai) Mining Investment Co. Ltd ("SKN") to facilitate the Chinese optimisation program. SKN is a mineral investment and service company which is 90% owned by Shenghe. Arafura believes this engagement is an important step to assist in the establishment of a long term strategic partnership with Shenghe.

No other matters or circumstance has arisen since 30 June 2014 that has significantly affected, or may significantly affect:

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

Likely developments and expected results of operations

The Group's principal focus is the development of the Nolan's Rare Earth's Project. Ongoing studies which are aimed at reducing both capital and operating expenditure for the project are steadily progressing. Studies continue with Chinese rare earths experts who are investigating further optimisation of the project flow sheet. Results will be announced forthwith.

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.

Information on Directors

Ian John Kowalick, BSc (Hons), B.Ec, AM. *Chairman and Non-Executive Director.*

Experience and expertise

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

Appointed

19 December 2002.

Other current Directorships

SA Forestry Corporation.

Former Directorships in the last 3 years

Syngas Limited.
Director of Central Australian Phosphate Limited (formally known as Nupower Resources Ltd).
Chairman of Playford Capital.

Special responsibilities

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

Interests in shares and options

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

Information on Directors (cont)

Gavin Lockyer, B.Bus, CA. *Managing Director and Chief Executive Officer.*

Experience and expertise

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 having served as Financial Controller with the Tethyan Copper Company Limited. Gavin previously held a number of senior finance and treasury positions in global mining companies Newcrest and Newmont following a successful international investment banking career with BankWest and ANZ in Australia, and Bankers Trust and Deutsche Bank in London. Mr Gavin Lockyer was appointed Managing Director and Chief Executive Officer on 23rd of July 2013.

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 23 years his career has exposed him to business practices in Australia, Europe, the UK, the US, Japan, China and Pakistan.

First Appointed

23 July 2013. (Gavin previously held the position of Chief Financial Officer and Company Secretary since 2006).

Other current Directorships

None.

Former Directorships in the last 3 years

None.

Special responsibilities

None.

Interests in shares and options

3,130,000 unlisted options in Arafura Resources Limited *(Indirect).*

334,014 ordinary shares in Arafura Resources Limited *(Indirect).*

Information on Directors (cont)

Christopher Tonkin, B.Sc (Hons), BA, MBA. *Non-Executive Director.*

Experience and expertise

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

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

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

First Appointed

1 January 2011.

Mr Chris Tonkin stepped down as Managing Director and Chief Executive Officer on the 23rd of July 2013 and Mr Gavin Lockyer was appointed to the position. Mr Tonkin will continue as a Non-Executive Director of the Company.

Other current Directorships

None.

Former Directorships in the last 3 years

None.

Special responsibilities

None.

Interests in shares and options

750,000 unlisted options in Arafura Resources Limited *(Direct).*
100,000 ordinary shares in Arafura Resources Limited *(Direct).*

Information on Directors (cont)

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

Experience and Expertise

In Ms. Lu is currently a Non-Executive Director of Sheng Kang Ning (Shanghai) Mining Investment Co. Ltd ("SKN"), a China-based mineral investment and services company. The business objectives of SKN are global mineral investment, project development, equity investment and management of mineral resources.

Prior to being appointed as Non-Executive Director of SKN, Ms. Shasha Lu was Executive Director and CEO of Hong Kong East China Non-Ferrous Mineral Resources Co. Ltd. (HKECE) and Ao-Zhong International Resources Pty Ltd (Ao-Zhong), wholly owned subsidiaries of Jiangsu East China Non-ferrous Metals Investment Holding Co., Ltd.(ECE). HKECE and Ao-Zhong hold the foreign business interests of ECE.

Ms. Lu also holds an Executive Master of Business Administration (EMBA) from Nanjing University, as well as PhD in Medicine from the Tianjin University, China. Ms. Lu has worked as a Postdoctoral fellow at the Karolinska Institute in Stockholm, Sweden and as a Visiting Scholar at the Geneva University during which time, she undertook some work in the World Health Organisation.

Ms Lu is also a Director of Globe Metals & Mining Limited (ASX: GBE).

First Appointed
21 July 2009.

Other current Directorships
Globe Metals and Mining Ltd (ASX: GBE).
Sheng Kang Ning (Shanghai) Mining Investment Co. Ltd.

Former Directorships in the last 3 years
None.

Special responsibilities
Member of Remuneration and Nomination Committee.
Member of the Audit and Risk Committee.

Interests in shares and options
1,000,000 unlisted options in Arafura Resources Limited *(Direct).*

Information on Directors (cont)

Terry Grose, B.Ec, MBA. *Non-Executive Director.*

Experience and expertise

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 a number of 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.

In 1996 Terry moved to Hong Kong as CFO and Executive Director of an innovative computer software company with operations in Hong Kong and Japan. Three years later he played a key role in negotiating the sale of the business and then established his own business, Grose International, a commercial and financial consultancy 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 a number of companies.

Terry is a Fellow of the Australian Institute of Company Directors and is currently a Director of Yirra Yaakin Aboriginal Corporation, Martu People Limited and Central Desert Native Title Services Limited.

First Appointed

21 February 2013.

Other current Directorships
None.

Former Directorships in the last 3 years
None.

Special responsibilities
Chairman of the Audit and Risk Committee.
Member of the Remuneration and Nomination Committee.

Interests in shares and options
20,000 ordinary shares in Arafura Resources Limited (Direct).

Information on Directors (cont)

Company Secretary

Peter Sherrington, 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 2014 were:

	Board meetings		Meetings of committees			
Director	**Full meetings of Directors held**	**Full meetings if Directors attended**	**Audit & Risk Committee meetings held**	**Audit & Risk Committee meetings attended**	**Remuneration & Nomination Committee held**	**Remuneration & Nomination Committee attended**
Terry Grose	12	12	4	4	2	2
Ian Kowalick	12	12	4	4	2	2
Shasha Lu	12	11	4	4	2	2
Chris Tonkin	12	12	-	-	-	-

As at 30 June 2014 the Committees of Arafura are comprised of the following:

- Mr. Kowalick is Chairman of the Remuneration and Nomination Committee and a member of the Audit and Risk Committee.
- Mr. Grose is Chairman of the Audit and Risk Committee and a member of the Remuneration and Nomination Committee.
- Ms. Lu is a member of both the Remuneration and Nomination Committee and Audit and Risk Committee.

Remuneration report (audited)

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

Non-Executive and Executive Directors
Ian Kowalick
Chris Tonkin(1)
Shasha Lu
Terry Grose
Gavin Lockyer(1) (Managing Director and Chief Executive Officer)

Other Key Management Personnel

Name	Position
Peter Sherrington(2)	Chief Financial Officer and Company Secretary
John Ganser(3)	General Manager of Projects
Neil Graham(3)	General Manager of Operations and Technology
Richard Brescianini	General Manager of Strategic Development and Exploration
Brian Fowler(4)	General Manager of Northern Territory and Sustainability

(1) Mr Tonkin stepped down as Managing Director and Chief Executive Officer on the 23rd of July 2013 and Mr Lockyer was appointed to the position. Mr Tonkin resumed his position as Non-Executive Director of the Company.

(2) Mr Peter Sherrington was appointed to the position of Chief Financial Officer and Company Secretary on the 23rd of July 2013 as Mr Lockyer transitioned from this role.

(3) Mr Ganser left Arafura on the 9th of April 2014. Mr Graham held the position as General Manager of Operations and Technology prior to Mr Ganser's departure. As a result of the change, Mr Graham holds the position of General Manager of Projects and Technology.

(4) Mr Brian Fowler was appointed to the position of General Manager of Northern Territory and Sustainability on the 24th of July 2014.

Remuneration Governance

The Remuneration and Nomination 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.

It's 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.

Remuneration report (audited) - (cont)

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

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

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

A Principles used to determine the nature and amount of remuneration

For the 2014 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 level of the Directors and the Group's Executives was 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 was determined by the Board within the maximum approved by shareholders. The Board undertakes an annual review of its performance. No bonuses are paid to Non-Executive Directors.

The Remuneration and Nomination Committee engaged independent consultants Derwent Executive Perth Pty Ltd ("Derwent") to benchmark Directors and Executive fees against the prevailing market conditions for the period commencing 1 July 2013. This process also involved reviewing the Board performance and composition for the financial year and also provided an opportunity for Derwent to make recommendations to the Company on processes of how to best evaluate the Boards performance moving forward. Costs incurred for this process totalled $6,000.

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

Remuneration report (audited) - (cont)

Non-Executive Directors

Fees and payments to Non-Executive Directors reflect the demands that are made on, and the responsibilities of, the Directors. Non-Executive Directors' fees and payments are reviewed annually by the Board. The Board considered market conditions and its benchmarked remuneration from the prior year and determined it necessary that there would 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. The Chairman is not present at any discussion relating to the determination of his own remuneration.

Non-Executive Directors' fees are determined within an aggregate Directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at $1,000,000 per annum but defined more specifically below:

	Year ended 30 June 2014	From 1 July 2014
Base Fees		
Chairman	$135,000	$135,000
Deputy Chairman	$102,500	$102,500
Other Non-Executive Directors	$70,000	$70,000
Additional Fees		
Audit and Risk Committee – Chairman	*	*
Audit and Risk Committee – member	*	*
Remuneration and Nomination Committee - Chairman	*	*
Remuneration and Nomination Committee - member	*	*

Directors are 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 2014.

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

There is no direct link between remuneration paid to any Non-Executive Directors and corporate performance 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;

Remuneration report (audited) - (cont)

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

Base pay and benefits

The base pay (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. External remuneration consultants McDonald and Company (Australia) Pty Ltd were paid $4,750 (GST excl.) in the 2014 financial year to provide analysis and survey data to ensure the base pay is set to reflect the market for a comparable role. Arafura also internally conducted their own 360° review to allow a top down and bottom up approach to the review process, this way all employees could contribute to constructively improve the management of the Company.

Base pay for Senior Executives is reviewed annually to ensure the Executive's pay is competitive with the market. An Executive's pay is also reviewed upon promotion. There are no guaranteed base pay increases fixed in any Senior Executive's contract. Executives are also entitled to a company funded car park, as well as a Health and Well Being allowance amounting to $1,100.

The Board considered prevailing market conditions and the Company's strategy going forward. The review led to the Board determining that it was reasonable to freeze Executive salaries. As such, all Key Management Personnel's remuneration remained unchanged effective on 1 July 2014.

Managing Director and CEO Mr. Gavin Lockyer's contract remained unchanged for the 2014 financial year after his promotion to the role.

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 Remuneration and Nomination Committee is responsible for assessing whether Key Performance Indicators ("KPI's") are met.

Remuneration report (audited) - (cont)

For the year ended 30 June 2014, there were two KPI's for Executives (excluding the Managing Director and CEO) which are intended to be aligned with shareholder interests. These relate to progress towards the completion of the Feasibility Study and progress towards securing additional finance.

Mr. Tonkin and Mr. Lockyer received no bonus in their capacity as Managing Director and Chief Executive Officer. However, senior management were to receive up to 30% of Total Fixed Remuneration ("TFR") upon KPI's being met in the 2014 financial year. For the year ended 30 June 2014 no Short-Term Incentives were paid to Executives or the Managing Director.

Long-term performance incentives

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

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

Under the Company's Option Plan approved by shareholders at the general meeting held on 22 November 2013, 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.

No bonus payments other than as indicated in the remuneration table on page 34 were paid during the reporting period.

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.

Remuneration report (audited) - (cont)

For the 2014 financial year, the key management personnel include the Directors of Arafura Resources Limited and those Executives that report directly to the Managing Director and Chief Executive Officer being:

- G Lockyer(1) – *Managing Director & Chief Executive Officer*
- P Sherrington(2) – *Chief Financial Officer and Company Secretary*
- R Brescianini – *General Manager Strategic Development and Exploration*
- J Ganser(3) – *General Manager of Projects*
- N Graham(3) – *General Manager of Operations and Technology*
- B Fowler(4) – *General Manager of Northern Territory & Sustainability*

(1) Mr Tonkin stepped down as Managing Director and Chief Executive Officer on the 23rd of July 2013 and Mr Lockyer was appointed to the position. Mr Tonkin resumed his position as Non-Executive Director of the Company.

(2) Mr Peter Sherrington was appointed to the position of Chief Financial Officer and Company Secretary on the 23rd of July 2013 as Mr Lockyer transitioned from this role.

(3) Mr Ganser left Arafura on the 9th of April 2014. Mr Graham held the position as General Manager of Operations and Technology prior to Mr Ganser's departure. As a result of the change, Mr Graham holds the position of General Manager of Projects and Technology.

(4) Mr Brian Fowler was appointed to the position of General Manager of Northern Territory and Sustainability on the 24th of July 2014.

Voting and comments made at the company's 2013 Annual General Meeting

Arafura Resources Ltd received more than 92% of "for" votes on its remuneration report for the 2014 financial year. If the remuneration report had again received more than 25% votes cast "against", the company would be required to put to shareholders a resolution proposing the calling of an extraordinary general meeting to consider the appointment of new Directors to the company (known as a Spill Resolution). As less than 8% voted against the remuneration report at the 2013 AGM, this was not required.

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

Remuneration report (audited) - (cont)

	Short–term benefits			Post–employment benefits	Long-term benefits		Share-based payments		
2014 **Name**	**Cash salary and fees** $	**Bonus** $	**Non-monetary benefits** $	**Super-annuation** $	**Long service leave** $	**Termination benefits** $	**Options** $	**Total** $	**Percent - consisting of options** %
Non-Executive Directors									
I Kowalick	135,000	-	-	16,200	-	-	-	151,200	-
T Grose	70,000	-	-	8,400	-	-	-	78,400	-
S Lu	70,000	-	-	8,400	-	-	-	78,400	-
C Tonkin (1)	163,280	-	-	8,400	-	-	-	171,680	-
Executive Directors									
G Lockyer	395,575	-	2,120	25,000	60,394	-	97,445	580,534	17%
Other key management personnel (Group)									
P Sherrington	302,156	-	2,120	24,980	12,000	-	31,182	371,638	8%
R Brescianini	276,100	-	2,120	25,000	38,430	-	31,182	372,832	8%
N Graham	295,743	-	2,120	35,357	2,115	-	31,182	366,517	9%
J Ganser	277,840	-	2,120	22,311	-	166,341	(14,917)	453,695	(3%)
B Fowler	249,558	-	-	29,821	27,561	-	31,182	338,122	9%
Total	**2,235,252**	**-**	**10,600**	**203,869**	**140,500**	**166,341**	**207,256**	**2,963,018**	**7%**

(1) Mr. Tonkin incurred $93,280 in consultancy work throughout the financial year. As Mr. Tonkin worked in an executive capacity up until the 23rd of July 2013, being the point when Mr. Lockyer assumed the role of Managing Director and Chief Executive Officer, Mr Tonkin incurred $22,258 of the above amount in an Executive capacity.

Remuneration report (audited) - (cont)

	Short–term benefits			Post–employment benefits	Long-term benefits		Share-based payments		
2013 **Name**	**Cash salary and fees** **$**	**Bonus** **$**	**Non-monetary benefits** **$**	**Superannuation** **$**	**Long service leave** **$**	**Termination benefits** **$**	**Options** **$**	**Total** **$**	**Percent - consisting of options** **%**
Non-Executive Directors									
I Kowalick	135,000	-	-	16,200	-	-	-	151,200	-
T Grose	31,590	-	-	3,791	-	-	-	35,381	-
S Lu	70,000	-	-	8,400	-	-	-	78,400	-
A Losada-Calderon	29,969	-	-	2,697	-	-	-	32,666	-
Executive Directors									
C Tonkin(1)	430,000	-	-	8,400	-	-	-	438,400	-
Other key management personnel (Group)									
R Brescianini	275,583	18,349	2,303	26,454	28,856	-	15,327	366,872	4%
N Graham	295,743	17,857	2,303	37,632	13,899	-	15,327	382,761	4%
J Ganser	350,733	18,349	2,303	33,217	16,301	-	-	420,903	-
G Lockyer	303,852	18,349	2,303	28,998	35,502	-	15,327	404,331	4%
Total	**1,922,470**	**72,904**	**9,212**	**165,789**	**94,558**	**-**	**45,981**	**2,310,914**	**2%**

(1) Includes $360,000 (GST Exclusive) for executive consultancy services at standard commercial rates.

Remuneration report (audited) - (cont)

C Service agreements

On appointment to the Board, all Non-Executive Directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the office or Director.

Remuneration and other terms of employment for the Managing Director and Chief Executive Officer 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, parking and participation where eligible in the Arafura Share Option Plan. Other major provisions of the agreements relating to remuneration are set out below for the 2014 financial year:

G Lockyer, *Managing Director and Chief Executive Officer as of 23 July 2014.*

- No term of agreement.
- Base salary inclusive of superannuation, for the year ended 30 June 2014 of $425,000. A pay freeze has been initiated for the 2015 financial year.
- An annual $1,100 allowance for general health and wellbeing.
- Long Term Incentive plan, on the 18th of July 2013, 2,500,000 options were granted in accordance with Arafura's ESOP. Further details can be found at note 27.
- 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.

C Tonkin, *Managing Director and Chief Executive Officer up until 23 July 2014.*

- No term of agreement.
- $30,000 (GST Exclusive) to be paid per month to Catalyst Capital Solutions Pty Ltd for services performed as Chief Executive Officer.
- Consultant work and technical committee services to be incurred at a rate of $300 per hour capped at a maximum daily rate of $2,200.
- Payment of $78,400 per annum inclusive of superannuation for Non-Executive Director Fees.
- No termination payments/benefits are to be made due to the consultancy agreement established between Arafura Resources Ltd and Catalyst Capital Solutions Pty Ltd.

Remuneration report (audited) - (cont)

P Sherrington, *Chief Financial Officer and Company Secretary*

- No term of agreement.
- Base salary inclusive of superannuation, for the year ended 30 June 2014 of $330,000. A pay freeze has been initiated for the 2015 financial year.
- An annual $1,100 allowance for general health and wellbeing.
- Long Term Incentive plan, on the 18th of July 2013, 800,000 options were granted in accordance with Arafura's ESOP. Further details can be found at note 27.
- 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 2014 of $300,000. A pay freeze has been initiated for the 2015 financial year.
- An annual $1,100 allowance for general health and wellbeing.
- Long Term Incentive plan, on the 18th of July 2013, 800,000 options were granted in accordance with Arafura's ESOP. Further details can be found at note 27.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to three months of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to six months of the base salary.

N Graham, *General Manager of Projects and Technology as of 9 April 2014.*

- No term of agreement.
- Base salary inclusive of superannuation for the year ended 30 June 2014 of $330,000. A pay freeze has been initiated for the 2015 financial year.
- An annual $1,100 allowance for general health and wellbeing.
- Long Term Incentive plan, on the 18th of July 2013, 800,000 options were granted in accordance with Arafura's ESOP. Further details can be found at note 27.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to three months of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to six months of the base salary.

Remuneration report (audited) - (cont)

J Ganser, *General Manager of Projects up until 9 April 2014.*

- Fixed term 4 years commencing 13 September 2010.
- Base salary inclusive of superannuation for the year ended 30 June 2014 of $381,100.
- An annual $1,100 allowance for general health and wellbeing.
- Long Term Incentive plan, on the 18th of July 2013, 800,000 options were granted in accordance with Arafura's ESOP. Further details can be found at note 27.
- Termination benefits paid to Mr Ganser totalled $166,341. This includes the statutory period entitlement and a final payment for remaining employee benefits such as accrued annual leave not taken.

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

- No term of agreement.
- Base salary inclusive of superannuation for the year ended 30 June 2014 of $281,000. A pay freeze has been initiated for the 2015 financial year.
- An annual $1,100 allowance for general health and wellbeing.
- Long Term Incentive plan, on the 18th of July 2013, 800,000 options were granted in accordance with Arafura's ESOP. Further details can be found at note 27.
- 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.

Remuneration report (audited) - (cont)

D Share-based compensation

Options over shares in Arafura Resources Limited are granted by the Board under the Arafura Resources Limited Share Option Plan which was approved by shareholders at the 2013 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
10-Jan-13	31-Dec-13	31-Dec-15	$0.23	$0.07	100%
18-Jul-13	18-Jul-14	18-Jul-16	$0.14	$0.04	0%

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

The exercise price of the options issued during the 2014 financial year is based on a VWAP (volume weighted average price) plus typically 30% at which the company's shares are traded on the Australian Stock Exchange during the last 15 days up to and including the date of grant.

Details of options over ordinary shares in the Group provided as remuneration to each Director of the Group and each of the key management personnel of the Group are set out below. When exercisable, each option is convertible into one ordinary share of Arafura Resources Limited. Further information on the options is set out in note 19 and 27 to the financial statements.

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

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

Remuneration report (audited) - (cont)

Name	Number of options granted during the year	Value of options at grant date $	Number of options vested during the year	Number of options lapsed during the year	Value of lapsed options $
Directors of Arafura Resources Limited					
I J Kowalick	-	-	-	-	-
S Lu	-	-	-	(500,000)	(216,811)
T Grose	-	-	-	-	-
C Tonkin	-	-	-	-	-
G Lockyer	2,500,000	102,500	-	(1,000,000)	(369,811)
Other key management personnel of the group					
P Sherrington	800,000	32,800	300,000	(200,000)	(86,724)
R Brescianini	800,000	32,800	430,000	(850,000)	(323,911)
N Graham	800,000	32,800	430,000	(750,000)	(270,750)
B Fowler	800,000	32,800	-	(500,000)	(216,811)
J Ganser	800,000	32,800	-	(2,050,000)	(534,700)

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 Binomial option pricing model that take into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and the expected price volatility of the underlying share and the risk free interest rate of the term of the option.

The model inputs in determining the value for options granted during the year ended 30 June 2014 are contained in note 27 of the notes to the financial statements.

Shares provided on exercise of remuneration options

No options were converted to shares by any Key Management Personnel during the 30 June 2014 financial year, nor were any shares (performance or otherwise) given to any individual as part of their remuneration package.

Employee share scheme

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

E Additional information

Bonuses and share based compensation

Information in relation to the percentage of cash bonuses paid and forfeited, options vested and forfeited and the maximum value of options yet to vest that have been determined to be the fair value at the grant dates, less the expense incurred in the period ended 30 June 2014, is detailed below:

Remuneration report (audited) - (cont)

	Bonus		Options					
Name	Paid %	Forfeited %	Year granted	Vested %	Forfeited %	Financial years in which options may vest. Year	Maximum total value of grant yet to vest. $	Number of Options Granted
I Kowalick	-	-	2014	-	-	-	-	-
	-	-	2013	-	-	-	-	-
S Lu	-	-	2014	-	33	-	-	-
	-	-	2013	100	-	-	-	-
C Tonkin	-	-	2014	-	-	-	-	-
	-	-	2013	100	-	-	-	-
T Grose	-	-	2014	-	-	-	-	-
	-	-	2013	-	-	-	-	-
G Lockyer	-	100	2014	29	21	2015	5,055	2,500,000
	19	81	2013	74	29	2014	16,493	430,000
P Sherrington	-	100	2014	27	13	2015	1,618	800,000
R Brescianini	-	100	2014	46	37	2015	1,618	800,000
	20	80	2013	71	-	2014	16,493	430,000
N Graham	-	100	2014	50	30	2015	1,618	800,000
	18	82	2013	74	-	2014	16,493	430,000
J Ganser	-	100	2014	-	100	-	-	800,000
	16	84	2013	100	-	-	-	-
B Fowler	-	100	2014	47	33	2015	1,618	800,000

Remuneration report (audited) - (cont)

Loans to Directors and Executives

There were no loans to Directors and/or Executives during the reporting period or at 30 June 2014.

Other transactions with key management personnel
In the 2013 and 2014 financial year, there were no transactions with individuals at any time.

Movements in option interests of Key Management Personnel for 30 June 2014

2014	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of year	Vested and exercisable	Unvested
Directors of Arafura Resources Limited							
I J Kowalick	-	-	-	-	-	-	-
T Grose	-	-	-	-	-	-	-
C Tonkin	750,000	-	-	-	750,000	750,000	-
S Lu	1,500,000	-	-	(500,000)	1,000,000	1,000,000	-
G Lockyer	1,630,000	2,500,000	-	(1,000,000)	3,130,000	630,000	2,500,000
Key management personnel of the Group							
P Sherrington	700,000	800,000	-	(200,000)	1,300,000	500,000	800,000
R Brescianini	1,480,000	800,000	-	(850,000)	1,430,000	630,000	800,000
N Graham	1,680,000	800,000	-	(750,000)	1,730,000	930,000	800,000
J Ganser	1,250,000	800,000	-	(2,050,000)	-	-	-
B Fowler	700,000	800,000	-	(500,000)	1,000,000	200,000	800,000
Total	9,690,000	6,500,000	-	(5,850,000)	10,340,000	4,640,000	5,700,000

Remuneration report (audited) - (cont)

Movements in share interests of Key Management Personnel for 30 June 2014

2014	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year (on market trades)	Balance at the end of the year
Directors of Arafura Resources Limited				
I J Kowalick	577,007	-	-	577,007
T Grose	20,000	-	-	20,000
C Tonkin	100,000	-	-	100,000
S Lu	-	-	-	-
G Lockyer	334,014	-	-	334,014
Key management personnel of the Group				
P Sherrington	-	-	-	-
R Brescianini	85,054	-	-	85,054
N Graham	13,513	-	-	13,513
J Ganser	-	-	-	-
B Fowler	-	-	-	-
Total	1,129,588	-	-	1,129,588

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.

Non-audit services

No non-audit services were provided by BDO in the 2014 financial year. As a result the Board is satisfied that the auditor is compatible with, and did not compromise, the auditor's independence requirements of the Corporations Act 2001 for the following reasons:

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

Details of the provision of audit services by *BDO Audit (WA) Pty Ltd*, can be found at note 20 of this financial report.

AUDITOR'S INDEPENDENCE DECLARATION
FOR THE YEAR ENDED 30 JUNE 2014

Auditor's independence declaration

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

Signed in accordance with a resolution of the Directors.

G. Lockyer
Managing Director and Chief Executive Officer

I. Kowalick
Chairman

Perth, Western Australia
17 September 2014

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

As lead auditor of Arafura Resources Limited for the year ended 30 June 2014, 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 period.

Glyn O'Brien
Director

BDO Audit (WA) Pty Ltd
Perth, 17 September 2014

Approach to Corporate Governance

Arafura Resources Limited (**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 ASX Corporate Governance Council Principles and Recommendations 2nd edition (**Principles & Recommendations**). The Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Company's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. In compliance with the "if not, why not" reporting regime, where, after due consideration, the Company's corporate governance practices do not follow a recommendation, the Board has explained it 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 http://www.arafuraresources.com.au/about-us/corporate-governance.html, under the section marked "Corporate Governance":

Charters
Board
Audit Committee
Nomination Committee
Remuneration Committee

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

The Company reports below on whether it has followed each of the recommendations during the 2013/2014 financial year **(Reporting Period).** The information in this statement is current at 17 September 2014.

Corporate Governance Statement (cont)

Board

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

The Company has established the functions reserved to the Board, and those delegated to senior executives and has set out these functions in its Board Charter, which is disclosed on the Company's website.

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

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

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

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

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

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

The Board did not have a majority of directors who were independent during the period 1 July 2013 to 19 February 2014.

Corporate Governance Statement (cont)

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

- Statement of financial position items are material if they have a value of more than 10% of pro-forma net asset.
- Profit and loss items are material if they will have an impact on the current year operating result of 10% or more.
- Items are also material if they impact on the reputation of the Company, involve a breach of legislation, are outside the ordinary course of business, could affect the Company's rights to its assets, if accumulated would trigger the quantitative tests, involve a contingent liability that would have a probable effect of 10% or more on Statement of financial position or profit and loss items, or will have an effect on operations which is likely to result in an increase or decrease in net income or dividend distribution of more than 10%.
- Contracts will be considered material if they are outside the ordinary course of business, contain exceptionally onerous provisions in the opinion of the Board, impact on income or distribution in excess of the quantitative tests, there is a likelihood that either party will default, and the default may trigger any of the quantitative or qualitative tests, are essential to the activities of the Company and cannot be replaced, or cannot be replaced without an increase in cost which triggers any of the quantitative tests, contain or trigger change of control provisions, are between or for the benefit of related parties, or otherwise trigger the quantitative tests.

The independent directors of the Company are Ian Kowalick (Chairman), Terry Grose and Mr Tonkin (since 20 February 2014). Mr Kowalick and Mr Grose are independent as they are non-executive directors who are not members of management and who are free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgment.

Following the appointment of the Company's Managing Director and Chief Executive Office on 23 July 2013, the Board comprised a majority of non-independent directors. At that time, Mr Chris Tonkin was not an independent director, having been Managing Director and Chief Executive officer during the period 21 March 2012 to 23 July 2013. On 19 February 2014, the Board reviewed the independence of its non-executive directors, and in Mr Tonkin's absence, determined Mr Tonkin to an independent director notwithstanding his previous executive role with the Company. The Board considered that as the appointment and transition of Mr Lockyer as the Company's new Managing Director and Chief Executive Officer had completed, and given that Mr Tonkin consistently demonstrated a capability to make decisions which are in the best interests of the Company, it considers Mr Tonkin to be independent. Further, the Board notes that Mr Tonkin considers himself to bring independent judgement to the Board's decision making, notwithstanding his previous executive role with the Company.

Corporate Governance Statement (cont)

Accordingly, since 20 February 2014 the Board has comprised a majority of independent directors.

The non-independent directors of the Company during the Reporting Period were Chris Tonkin (until 19 February 2014 as noted above); Shasha Lu and Gavin Lockyer (appointed Managing Director and Chief Executive Officer on 23 July 2013).

The independent Chair of the Board is Ian Kowalick.

Independent professional advice
(Recommendation: 2.6)

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

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

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

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

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

Corporate Governance Statement (cont)

the total number of directors, must resign. A director who retires at an annual general meeting is eligible for re-election at that meeting and the re-appointment of directors is not automatic.

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

Board committees

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

The Board has established a Nomination and Remuneration Committee. The Nomination and Remuneration Committee comprises three non-executive directors; Ian Kowalick (independent Chair), Shasha Lu (not independent) and Terry Grose (independent). Accordingly, the Nomination and Remuneration Committee is structured in accordance with Recommendation 8.2.

During the Reporting Period, the Nomination and Remuneration Committee met twice. 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 27.

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

Details of remuneration, including the Company's policy on remuneration, are contained in the "Remuneration Report" which forms part of the Directors' Report and commences on page 28. Non-executive directors are remunerated at market rates for time, commitment and responsibilities. Fees for non-executive directors are not linked to the performance of the Company and no bonuses are paid to non-executive directors. The Chair's fee is determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chair is not present at any discussion relating to the determination of his own remuneration. Given the Company's stage of development, and the financial restrictions placed on it, the Company may consider it appropriate to grant options to non-executive directors, subject to obtaining the relevant approvals. This policy is subject to annual review. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at general meeting.

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

- base pay and benefits;
- short-term performance incentives;
- long-term incentives through participation in the Arafura Resources Ltd Employee Share Option Plan, or

Corporate Governance Statement (cont)

- otherwise at the discretion of the Board and subject to obtaining the relevant approvals. The grant of options is designed to recognise and reward efforts as well as to provide additional incentive and may be subject to the successful completion of performance hurdles; and
- other remuneration.

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

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

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

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

The Board has established an Audit and Risk Committee. The Audit and Risk Committee comprises three non-executive directors; Terry Grose (independent Chair), Shasha Lu (not independent) and Ian Kowalick (independent). Accordingly, the Audit and Risk Committee has been structured in accordance with Recommendation 4.2.

The Audit and Risk Committee held four meetings during the Reporting Period. 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 27.

Each of the Audit and Risk Committee members consider themselves to be financially literate and to have experience in the industry in which the Company operates. Details of each of the directors’ qualifications are set out in the Directors’ Report on page 22.

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

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

Corporate Governance Statement (cont)

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

Performance evaluation

Senior executives
(Recommendations: 1.2, 1.3)

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

During the Reporting Period, an evaluation of senior executives did not take place in accordance with the process disclosed above. Instead, during the Reporting Period the Managing Director and Chief Executive Officer and other senior executives participated in a 360o review process. From this review process, KPI's for the Managing Director and Chief Executive Officer will be established. The Managing Director and Chief Executive Officer will then in turn establish KPI's for the other senior executives. The Board is still in the process of establishing a formal process for evaluating the performance of its senior executives, which will be disclosed on the Company's website once established. The 360^{o} review process undertaken during the Reporting Period will assist with identifying appropriate criteria against which performance of the Company's senior executives will be evaluated.

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

The Chair is responsible for evaluation of the Board and, when deemed appropriate, Board committees and individual directors.

During the Reporting Period, the Company engaged third party consultants to assist the Company with a review of the composition and skills of the Board in relation to the Company's business needs and a review of the performance of the Board, including assisting with the development of a process for evaluating the performance of the Board. The Company is still in the process of developing a process for evaluating the performance of the Board, its committees, individual directors and the Managing Director and Chief Executive Officer, which will be disclosed on the Company's website once established. However, it is expected to involve the use of a questionnaire, which will be completed by each director, followed by a round-table discussion facilitated by the Chair.

The Company's Process for Performance Evaluation is disclosed on the Company's website, but as noted above will be updated when formal processes are established.

Corporate Governance Statement (cont)

Ethical and responsible decision making

Code of Conduct
(Recommendations: 3.1, 3.5)

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

The Company has also established a Whistleblower Policy, the aim of which is to ensure that directors, officers and employees comply with the Company's Code of Conduct, and to encourage the reporting of violations (or suspected violations) and provide effective protection from victimisation or dismissal to those reporting by implementing system for confidentiality and reporting handling.

A summary of the Company's Code of Conduct and the Company's Whistleblower Policy are disclosed on the Company's website.

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

The Company has established a Diversity Policy, which until May 2014 included requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress towards achieving them.

However, the Board has not set measurable objectives for achieving gender diversity. During the Reporting Period, the Board considered the establishment of measurable objectives for achieving gender diversity and 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. Accordingly, the Board amended its Diversity Policy to provide that the Board may establish measurable objectives for achieving gender diversity that are appropriate for the Company. The Board will reconsider the establishment of measurable objectives for achieving gender diversity as its circumstances change. The Company provides equal opportunities in respect to employment and employment conditions, and refers to its Diversity Policy in relation to hiring, training and career advancement.

The proportion of women employees in the whole organisation, women in senior executive positions and women on the Board as at 30 June 2014 are set out in the following table:

Position	Proportion of women
Employees in whole organisation	5 out of 19 (26%)
Senior executive positions	0 out of 5 (0%)
Board	1 out of 4 (25%)

Corporate Governance Statement (cont)

The Company's Diversity Policy is disclosed on the Company's website.

Continuous Disclosure
(Recommendations: 5.1, 5.2)

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

The Company's Policy on Continuous Disclosure and Compliance Procedures are disclosed on the Company's website.

Shareholder Communication
(Recommendations: 6.1, 6.2)

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

The Company's Shareholder Communication Policy is disclosed on the Company's website.

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

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

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

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

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

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

Corporate Governance Statement (cont)

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

During the Reporting Period, the Company's management of its material business risks was based on a risk table prepared by management to identify the Company's material business risks and risk management strategies for those risks. Responsibility for the management of material business risks was allocated and management reported to the Board on material business risks on a monthly basis.

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

In June 2014, a detailed risk matrix was prepared by management to identify the Company's material business risks and risk management strategies for those risks. Responsibility for the management of material business risks has been allocated, and management will report to the Board on material business risks on a six-monthly basis. The risk matrix will be reviewed and updated six-monthly.

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

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

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

	Notes	2014 $	2013 $
Revenue from continuing operations	5	962,686	1,343,151
Non-capitalised portion of R&D tax incentive rebate	5	776,615	1,956,643
Other income	5	(206,195)	302,831
Employee benefits expense	6	(4,020,853)	(3,927,410)
Other expenses	6	(3,123,223)	(3,597,957)
Depreciation and amortisation	6	(94,066)	(119,344)
Finance costs	6	(4,972)	(1,534)
Impairment of assets	6	(1,171,129)	(7,718,528)
Loss before income tax		**(6,881,137)**	**(11,762,148)**
Income tax benefit	7	-	-
(Loss) after income tax for the year		**(6,881,137)**	**(11,762,148)**
Total comprehensive (loss) for the year attributable to owners of Arafura Resources Limited		**(6,881,137)**	**(11,762,148)**
		Cents	**Cents**
Loss per share attributable to owners of Arafura Resources Limited			
Basic loss per share	22	(1.6)	(2.8)
Diluted loss per share	22	(1.6)	(2.8)

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 30 JUNE 2014

	Notes	**2014** $	2013 $
CURRENT ASSETS			
Cash and cash equivalents	8	24,547,030	32,183,321
Trade and other receivables	9	433,350	525,035
Total Current Assets		**24,980,380**	**32,708,356**
NON-CURRENT ASSETS			
Property, plant and equipment	10	194,104	255,736
Deferred exploration, evaluation and development costs	11	111,602,476	111,037,558
Total Non-Current Assets		**111,796,580**	**111,293,294**
TOTAL ASSETS		**136,776,960**	**144,001,650**
CURRENT LIABILITIES			
Borrowings	12	-	16,031
Trade and other payables	13	1,618,877	2,025,555
Provisions	14	468,439	786,845
Total Current Liabilities		**2,087,316**	**2,828,431**
NON-CURRENT LIABILITIES			
Provisions	14	175,778	112,117
Total Non-Current Liabilities		**175,778**	**112,117**
TOTAL LIABILITIES		**2,263,094**	**2,940,548**
NET ASSETS		**134,513,866**	**141,061,102**
EQUITY			
Contributed equity	15	194,128,196	194,128,196
Reserves	16	11,515,916	11,182,015
Accumulated losses	17	(71,130,246)	(64,249,109)
TOTAL EQUITY		**134,513,866**	**141,061,102**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

AS AT 30 JUNE 2014

Consolidated	Notes	Contributed equity $	Equity reserve $	Accumulated losses $	Total equity $
Balance at 30 June 2012		**184,363,890**	**10,953,178**	**(52,486,961)**	**142,830,107**
Loss for the 2013 financial year	17	-	-	(11,762,148)	(11,762,148)
Other comprehensive income		-	-	-	-
Total Comprehensive income for the year		**-**	**-**	**(11,762,148)**	**(11,762,148)**
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs and tax	15	9,764,306	-	-	9,764,306
Employee share options – value of employee services	16	-	228,837	-	228,837
		9,764,306	228,837	-	9,993,143
Balance at 30 June 2013		**194,128,196**	**11,182,015**	**(64,249,109)**	**141,061,102**
Loss for the 2014 financial year	17	-	-	(6,881,137)	(6,881,137)
Other comprehensive income		-	-	-	-
Total Comprehensive income for the year		**-**	**-**	**(6,881,137)**	**(6,881,137)**
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs and tax	15	-	-	-	-
Employee share options – value of employee services	16	-	333,901	-	333,901
		-	333,901	-	333,901
Balance at 30 June 2014		**194,128,196**	**11,515,916**	**(71,130,246)**	**134,513,866**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2014

	Notes	2014 $	2013 $
Cash flows from operating activities			
Payments to suppliers and employees		(6,625,005)	(7,359,467)
Interest received		1,017,834	1,248,168
R&D incentive rebate – non-capitalised portion		776,615	1,956,643
Interest paid		(4,970)	(4,383)
Net cash (outflow) from operating activities	**18**	**(4,835,526)**	**(4,159,039)**
Cash flows from investing activities			
Payments for property, plant and equipment		(32,434)	(3,053,429)
Payments for exploration and evaluation		(6,055,247)	(10,556,339)
R&D incentive rebate – capitalised portion		3,284,199	20,581,103
Net cash outflow from investing activities		**(2,803,482)**	**6,971,335**
Cash flows from financing activities			
Proceeds from issue of shares	15	-	9,764,306
Repayments of finance lease		(16,031)	(9,258)
Net cash outflow from financing activities		**(16,031)**	**9,755,048**
Net increase/(decrease) in cash and cash equivalents		**(7,655,039)**	**12,567,344**
Cash at the beginning of the financial year		32,183,321	19,545,603
Effects of exchange rate changes on cash and cash equivalents		18,748	70,374
Cash and cash equivalents at the end of the financial year	**8**	**24,547,030**	**32,183,321**

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 2014

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).

New and amended standards adopted by the Group
The group has applied the following standards and amendments for the first time for their annual period commencing 1 July 2013:

- *AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, AASB 128 Investment in Associates and Joint Ventures, AASB 127 Separate Financial Statements and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards;*
- *AASB 2012-10 Amendements to Australian Accounting Standards – Transition Guidance and other Amendments* which provides an exemption from the requirement to disclose the impact of the change in accounting policy on the current period;
- *AASB 13 Fair Value Measurement and AASB 2011-8 Amendements to Australian Accounting Standards arising from AASB 13;*
- *AASB 119 Employee Benefits (September 20144) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011);*
- *AASB 2012-5 Amendements to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle; and*
- *AASB 2012-2 Amendements to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities.*

The adoption of AASB 11, AASB 13 and AASB 119 has not resulted in any significant adjustments to the Statement of Financial Position or Performance for the current reporting period.

Note 1: Summary of significant accounting policies (cont)

Early adoption of standards
The Group has not adopted any pronouncements to the annual reporting period beginning 1 July 2013.

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 2014 and the results of all controlled entities for the year then ended. Arafura Resources Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all 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. Arafura has a joint arrangement with Ferrowest Ltd.

Note 1: Summary of significant accounting policies (cont)

Joint Operations
Arafura recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held of incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements, further reference is made at note 25.

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 balance sheet.

(iii)Equity Method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates or joing ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group treats transactions with non-controlling interests that do no results in a loss of control as transaction with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received will be recognised in a separate reserve within equity attributable to owners of Arafura Resources Ltd.

Note 1: Summary of significant accounting policies (cont)

(d) Income tax

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

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

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of 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.

(e) Cash and cash equivalents

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

(f) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement

Note 1: Summary of significant accounting policies (cont)

no more than 120 days from the date of recognition for land development and resale debtors, and no more than 30 days for other debtors.

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

(g) Trade and other payables

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

(h) Joint Arrangements

The Group has investments in joint operations formed with separate legal entities. They are contractual arrangements between participants for the sharing of costs and outputs and do not in themselves generate revenue and profit. The joint operations are of the type where initially one party contributes tenements with the other party earning a specified percentage by funding exploration activities; thereafter the parties often share exploration and development costs and output in proportion to their ownership of joint operation assets. The joint operation entity does not hold any assets other than the rights of minerals which the earn-in partner is exploring. In line with *AASB 11 Joint Arrangements*, as joint operator, Arafura shall recognise in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

(i) Investments and other financial assets

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

Note 1: Summary of significant accounting policies (cont)

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

(ii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods, and/or services directly to a debtor with no intention of selling the receivable.

They are included in current assets, except for those with maturities greater than twelve months after the reporting date which are classified as non-current assets.

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

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

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

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

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

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

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

Note 1: Summary of significant accounting policies (cont)

impairment loss on the financial assets previously recognised in the profit and loss, is removed from equity and recognised in the statement of profit or loss and other comprehensive income.

(j) Property, plant and equipment

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

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

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 performance date.

Note 1: Summary of significant accounting policies (cont)

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.

(k) Exploration, evaluation and development costs

(i) Exploration

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

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

(ii) Evaluation

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

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

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

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

Note 1: Summary of significant accounting policies (cont)

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

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

(l) Interest bearing loans and borrowings

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

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

(m) Leased assets

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

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in current liabilities. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the statement of 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.

(n) Fair value estimation

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

Note 1: Summary of significant accounting policies (cont)

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

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

(o) Impairment of assets

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

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

(p) Employee benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees 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. 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 27.

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.

Note 1: Summary of significant accounting policies (cont)

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

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

(q) Provisions

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

(r) Revenue recognition

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

Interest revenue is recognised as earned.

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

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

(s) Goods and services tax (GST)

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

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

(t) Contributed equity

Ordinary shares are classified as equity.

Note 1: Summary of significant accounting policies (cont)

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

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

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

(u) Segment reporting

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

(v) Share-based Payments

Share-based payments compensation benefits are provided to employees via the Arafura Resources Ltd Employee Share Option Plan. Information relating to these schemes is set out in note 27.

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

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

(w) Foreign currency translation

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

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

Note 1: Summary of significant accounting policies (cont)

(x) 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.

(y) Earnings per share

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

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

(z) Accounting Standards Issued Not Yet Effective

The Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 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 9 Financial Instruments

Application date:
Must be applied for financial years commencing on or after 1 January 2017. Therefore application date for the company will be 30 June 2018.
Nature of change:

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. Since December 2013, it also sets out new rules for hedge accounting.

Impact on initial application:

There will be no impact on the company's accounting for financial assets and financial liabilities, as the new requirements only effect the accounting for available-for-sale financial

Note 1: Summary of significant accounting policies (cont)

assets and the accounting for financial liabilities that are designated at fair value through profit or loss and the company does not have any such financial assets or financial liabilities.

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.

ii) IFRS 15 (issued June 2014) – Revenue from contracts with customers

Application date:
Must be applied for annual reporting periods beginning on or after 1 January 2017. Therefore application date for the company will be 30 June 2018.

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:

Due to the recent release of this standard the company has not yet made an assessment of the impact of this standard.

Note 2: Financial risk management

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

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

Note 2: Financial risk management (cont)

The Group holds the following financial instruments:

	2014 **$**	2013 **$**
Financial assets		
Cash and cash equivalents	24,547,030	32,183,321
Trade and other receivables	433,350	525,035
	24,980,380	**32,708,356**
Financial liabilities		
Trade creditors	468,320	928,978
Trade and other accruals	1,009,944	981,789
PAYG and payroll tax liabilities	140,613	114,788
Employee benefits	202,539	183,931
Current and Non-current borrowings	-	16,031
	1,821,416	**2,225,517**

(a) Market risk

(i) Foreign exchange risk

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

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

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

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

Note 2: Financial risk management (cont)

	2014 USD	2013 USD
Cash at bank	**170,687**	708,264
Trade Payables	**-**	-

(ii) Group sensitivity

Based on the financial instruments held at 30 June 2014, had the Australian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, there would be an immaterial effect on the Group's post tax loss. The unrealised gain/loss would result in a reduction of the reported Group post tax loss of $18,120 or an increased loss in reported Group post tax losses of $16,472.

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

(iii) 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 available-for-sale financial assets. At 30 June 2014, Arafura had no such investments.

(iv) Cash flow and fair value interest rate risk

The Group has no significant long term borrowings and hence, is not exposed to any significant interest rate risk.

(v) Group sensitivity

At 30 June 2014, if interest rates had increased by 70 or decreased by 100 basis points from year-end rates with all other variables held constant, post-tax loss for the year would have been $171,821 lower/($242,930 higher) (2013 – change of 70/100 bps: $225,275 lower/($320,670 higher). This would be the result from higher/lower interest income from cash and cash equivalents.

Note 2: Financial risk management (cont)

(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:

	2014 $	2013 $
Cash at bank and short-term bank deposits		
Standard & Poor's rating AA-	**24,547,030**	32,183,321

(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 2014	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	1,720,146	101,269	-	-	-	1,821,415	1,821,415
Fixed rate	-	-	-	-	-	-	-
Total non-derivatives	**1,720,146**	**101,269**	-	-	-	**1,821,415**	**1,821,415**

Note 2: Financial risk management (cont)

Group – At 30 June 2013	Less than 6 months	6 – 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amounts of (assets)/liabilities
	$	$	$	$	$	$	$
Non-derivatives							
Non-interest bearing	2,025,555	-	-	-	-	2,025,555	2,025,555
Fixed rate	4,261	11,770	-	-	-	16,031	(8,893)
Total non-derivatives	**2,029,816**	**11,770**	-	-	-	**2,041,586**	**2,016,662**

(d) Fair value estimation

As Arafura disposed of such investments during the 2012 financial year, no fair value estimation is required.

Note 3: Critical accounting estimates and judgments

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

(a) Critical accounting estimates and assumptions

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

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

(ii) Employee Share Option Plan
The requirements of AIFRS call for options issued to employees to be recorded at their fair value using an option pricing model. This requires various assumptions to be made in order to make the necessary calculations. For further details regarding the assumptions see note 27.

Note 3: Critical accounting estimates and judgments (cont)

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

Under the Industry Research and Development Act 1986, for the income year 2013/14 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 2014 financial year.

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

No critical judgements have been made when applying the entity's accounting policies for the 2013 and 2014 financial year.

Note 4: Segment information

AASB 8 requires a management approach under which segment information is presented on the same basis as that used for internal reporting purposes.

(a) Description of segments

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

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

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

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

Transfer prices between operation segments are on an arm's length manner similar to transactions with third parties.

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

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

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

Note 4: Segment information (cont)

The segment information provided to the Managing Director and CEO for the reportable segments for the year ended 30 June 2014 is as follows:

CONSOLIDATED	Project evaluation	Exploration	Corporate	Total
2014				
Segment revenue	3,284,199	-	1,739,301	5,023,500
Segment expenditure	(4,498,928)	(521,318)	(6,810,175)	(11,830,421)
Inter-segment expenditure	-	-	-	-
	(1,214,729)	(521,318)	(5,070,874)	(6,806,921)
Adjusted EBITDA	**-**	**-**	**(5,070,874)**	**(5,070,874)**
Capitalised expenditure	(1,214,729)	(521,318)	-	(1,736,047)
	(1,214,729)	(521,318)	(5,070,874)	(6,806,921)
2013				
Segment revenue	20,581,104	-	3,299,795	23,880,899
Segment expenditure	(13,144,142)	(648,251)	(7,296,531)	(21,088,924)
Inter-segment expenditure	-	-	-	-
	7,436,962	(648,251)	(3,996,736)	2,791,975
Adjusted EBITDA	**-**	**-**	**(3,996,736)**	**(3,996,736)**
Capitalised expenditure	7,436,962	(648,251)	-	6,788,711
	7,436,962	(648,251)	(3,996,736)	2,791,975
Total segment assets				
2014	97,904,628	13,697,848	25,174,484	136,776,960
2013	96,618,017	14,428,434	32,955,199	144,001,650
Total segment liabilities				
2014	1,252,968	33,295	976,831	2,263,094
2013	2,073,152	38,866	828,530	2,940,548

Reconciliation of adjusted EBITDA to operating profit before income tax:

Note 4: Segment information (cont)

	2014 $	2013 $
Adjusted EBITDA	**(5,070,874)**	**(3,996,736)**
Finance Costs	(4,972)	(1,534)
Depreciation & amortisation	(94,066)	(119,344)
Share option expense	(333,901)	(228,837)
Income accrued from Demonstration Plant reimbursement	(224,943)	232,454
Impairment on assets	(1,171,129)	(7,718,528)
Unrealised exchange rate (loss)/gain	18,748	70,377
Loss before income tax	**(6,881,137)**	**(11,762,148)**

Note 5: Revenue

	2014 $	2013 $
Revenue from continuing operations		
Other revenue		
Interest received	**962,686**	1,343,151
	962,686	1,343,151
Other Income		
Foreign exchange gain/(loss)	**18,748**	70,377
Non-capitalised portion of R&D Tax Incentive rebate	**776,615**	1,956,643
Other	**(224,943)**	232,454
	570,420	2,259,474
	1,533,106	3,602,625

Note 6: Expenses

	2014 $	2013 $
(a) Expenses		
Depreciation		
Depreciation – plant & equipment	**64,442**	87,445
Depreciation – motor vehicles	**8,895**	11,720
Depreciation – leasehold improvements	**20,729**	20,179
Total depreciation	**94,066**	119,344
Finance costs		
Interest expense	**4,972**	1,534
Total finance costs	**4,972**	1,534
Other expenses		
Accounting and other professional fees	**121,502**	179,268
Audit fees	**68,328**	70,000
Consultants fees	**881,470**	839,061
Employee benefits expense	**3,686,952**	3,698,573
Insurance	**103,099**	102,609
Legal fees	**249,247**	388,246
Share-based employee benefits	**333,901**	228,837
Share registry and stock listing fees	**75,663**	68,375
Other expenses	**1,623,914**	1,950,398
Total other expenses	**7,144,076**	7,525,367
Impairment of assets		
Capitalised exploration expenditure[(1)]	**1,243,013**	29,430
Capitalised EIS Costs - Whyalla	**(71,884)**	2,648,739
Non recoverable deposits on Whyalla Land Purchase	**-**	5,000,000
Capitalised Whyalla land acquisition costs	**-**	40,359
Total impairment of assets	**1,171,129**	7,718,528

(1) Impairments of capitalised expenditure were derived solely from the surrender of tenements throughout the financial period as Arafura continues to consolidate its position with the Nolans Project.

Note 7: Income tax

	2014 $	2013 $
(a) Income tax expense		
Current tax	-	-
(b) Operating loss before income tax expense	**(6,881,137)**	(11,762,148)
Tax at the Australian tax rate of 30% (2013: 30%)	**(2,064,341)**	(3,517,844)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
• Entertainment	**5,976**	3,774
• Share-based payments	**100,170**	68,651
• Sundry items not deductible (assessable)	**(237,174)**	(607,131)
• Deferred tax assets relating to tax losses and temporary differences not recognised	**3,817,161**	8,188,598
Temporary differences not recognised	**(1,621,792)**	(4,136,048)
Income tax benefit	**-**	-
(c) Deferred tax assets and liabilities not recognised relate to the following:		
Deferred tax assets		
Tax losses	**47,751,824**	49,850,482
Other temporary differences	**933,854**	702,393
Deferred tax liabilities		
Other temporary differences	**(33,480,743)**	(33,311,268)
Net deferred tax assets	**15,204,935**	17,241,607

The franking account balance at year end was $nil (2013: $nil). All unused tax losses were incurred by Australian entities.

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

The Company has not yet lodged its current 30 June 2014 rebate claim for Research and Development (R&D) and as such has not recognised any amount in the financial statements for the 30 June 2014 period.

Note 8: Current assets – Cash and cash equivalents

	2014 $	2013 $
Cash at bank and in hand	**2,048,275**	3,878,951
Bank deposits	**22,498,755**	28,304,370
	24,547,030	32,183,321

(a) 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

	2014 $	2013 $
Balances as above	**24,547,030**	32,183,321
Balances as per statements of cash flows	**24,547,030**	32,183,321

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

Note 9: Current assets – Trade and other receivables

	2014 $	2013 $
Sundry debtors	**111,555**	161,205
Security bonds	**161,053**	161,053
Goods & services tax paid	**46,018**	174,630
Other receivables	**114,724**	28,147
	433,350	525,035

(a) Fair value and credit risk

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

(b) Impaired receivables and receivables past due

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

Note 10: Non-current assets – Property, plant and equipment

Consolidated	Office furniture and fittings $	Office and computer equipment $	Plant and equipment $	Motor vehicles $	Land, Buildings and leasehold additions $	Total $
At 30 June 2012						
Cost or fair value	94,057	774,117	94,501	203,308	216,245	1,382,228
Accumulated depreciation	(38,749)	(673,714)	(65,908)	(182,693)	(59,153)	(1,020,217)
Net book amount	55,308	100,403	28,593	20,615	157,092	362,011
Year ended 30 June 2012						
Opening book amount	55,308	100,403	28,593	20,615	157,092	362,011
Additions	-	16,613	5,415	-	31,400	53,428
Disposals	-	-	-	-	-	-
Impairments	-	-	-	-	(40,359)	(40,359)
Transfers between classes	-	-	-	-	-	-
Depreciation charge	(9,789)	(65,832)	(11,824)	(11,720)	(20,179)	(119,344)
Depreciation charge capitalised	-	-	-	-	-	-
Closing book amount	45,519	51,184	22,184	8,895	127,954	255,736
At 30 June 2013						
Cost or fair value	94,057	790,730	99,916	203,308	207,286	1,395,297
Accumulated depreciation	(48,538)	(739,546)	(77,732)	(194,413)	(79,332)	(1,139,561)
Net book amount	45,519	51,184	22,184	8,895	127,954	255,736
Year Ended 30 June 2013						
Opening book amount	45,519	51,184	22,184	8,895	127,954	255,736
Additions	2,389	30,045	-	-	-	32,434
Disposals	-	-	-	-	-	-
Impairments	-	-	-	-	-	-
Transfers between classes	-	-	-	-	-	-
Depreciation charge	(10,137)	(46,995)	(7,310)	(8,895)	(20,729)	(94,066)
Depreciation charge capitalised	-	-	-	-	-	-
Closing book amount	37,771	34,234	14,874	-	107,225	194,104
At 30 June 2014						
Cost or fair value	96,446	820,775	99,916	203,308	207,286	1,427,731
Accumulated depreciation	(58,675)	(786,541)	(85,042)	(203,308)	(100,061)	(1,233,627)
Net book amount	37,771	34,234	14,874	-	107,225	194,104

Note 11: Non-current assets – Deferred exploration and evaluation expenditure

	2014 $	2013 $
Exploration, evaluation and development costs carried forward		
Balance at beginning of year	**111,037,558**	125,475,008
Capitalised exploration expenditure	**521,318**	677,681
Capitalised evaluation expenditure [(a)]	**4,498,928**	8,144,142
Impairment of exploration expenditure	**(1,243,013)**	(29,430)
Impairment of capitalised EIS costs - Whyalla	**71,884**	(2,648,739)
R&D Tax Incentive rebate receipted against capitalised evaluation costs	**(3,284,199)**	(20,581,104)
Balance at end of year	**111,602,476**	111,037,558

(a) Capitalised evaluation expenditure is expenditure on the Nolans Project, its proposed design and engineering, demonstration plant and environmental impact assessment to evaluate, formulate and demonstrate the technical feasibility and commercial viability in developing a rare earths processing plant to process and treat the ore to be mined from the Nolan's Project.

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

Note 12: Current and non-current liabilities – Borrowings

	2014 **$**	2013 $
Current interest bearing liability		
• Finance leases due within 1 year	**-**	16,296
Non-current interest bearing liability		
• Finance leases due later than 1 year but within 5 years	**-**	-
Minimum lease payments	**-**	16,296
Future finance charges recognised as a liability	**-**	(265)
Total lease liability	**-**	16,031
Representing interest bearing liabilities		
Current		
Interest bearing liabilities	**-**	16,031
Non-current		
Interest bearing liabilities	**-**	-
	-	16,031

(a) Guarantees

The Company has no guarantees at year end.

(b) Risk exposures

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

Note 13: Current liabilities – Trade and other payables

	2014 $	2013 $
Current		
Trade creditors [(a)]	**468,320**	928,978
Trade and other accruals	**1,009,944**	981,789
PAYG and payroll tax liabilities	**140,613**	114,788
	1,618,877	2,025,555

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

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

Note 14: Current and non-current liabilities - Provisions

	2014 $	2013 $
Current		
Provision for annual leave [(a)]	**202,539**	183,931
Provision – Demonstration plant and liquids[(b)]	**265,900**	602,914
	468,439	786,845
Non-current		
Provision for long service leave	**175,778**	112,117
	175,778	112,117

(a) The current liability for employee benefits is for accrued annual leave. The entire amount of the benefit is presented as current, since the Group does not have an unconditional right to defer settlement of these obligations. However based on past experience, the Group does not expect all employees to take the full amount of accrued leave within the next 12 months.

The following amount reflects leave that is not expected to be taken or paid within the next 12 months:

	2014 $	2013 $
Leave obligations expected to be settled after 12 months	**91,142**	82,769

Note 14: Current and non-current liabilities – Provisions (cont)

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

Note 15: Equity – Contributed equity

	2014 Shares	2013 Shares	**2014 $**	2013 $
Share capital				
Ordinary shares				
• Fully paid	**441,270,644**	441,270,644	**194,128,196**	194,128,196

(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-12	**Balance**	**396,004,144**		**184,363,890**
21-Nov-12	Private Placement	45,266,500	$0.22	9,958,630
21-Nov-12	Private Placement Transaction Costs	-		(194,324)
30-Jun-13	**Balance**	**441,270,644**		**194,128,196**
	Nil	-		-
30-Jun-14	**Balance**	**441,270,644**		**194,128,196**

(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 performance plus net debt.

Note 15: Equity – Contributed equity (cont)

The decrease in the 2014 gearing ratio has been primarily driven by a reduction in cash reserves as Arafura selectively progresses its work programs to complete the Nolans Project studies.

	Notes	2014 $	2013 $
Total payables	13 & 14	**2,087,316**	2,812,400
Borrowings	12	**-**	16,031
Less: cash and cash equivalents	8	**(24,547,030)**	(32,183,321)
Net debt		**(22,459,714)**	(29,354,890)
Total equity		**134,513,866**	141,061,102
Total capital		**111,706,212**	111,706,212
Gearing Ratio		**(20%)**	(26%)

Note 16: Equity – Reserves

	2014 $	2013 $
Reserves		
Share-based payments reserve	**11,515,916**	11,182,015
	11,515,916	11,182,015
Movements		
Share-based payments reserve		
Balance 1 July 2013	**11,182,015**	10,953,178
Option expense	**333,901**	228,837
Balance 30 June 2014	**11,515,916**	11,182,015

(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 17: Equity – Accumulated losses

	2014 $	2013 $
Balance 1 July 2013	**(64,249,109)**	(52,486,961)
Net loss for the year	**(6,881,137)**	(11,762,148)
Balance 30 June 2014	**(71,130,246)**	(64,249,109)

Note 18: Statement of cash flows reconciliation

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

	2014 $	2013 $
Net (loss)	**(6,881,137)**	(11,762,148)
Depreciation and amortisation	**94,066**	119,344
Impairment on assets	**1,171,129**	7,718,528
Other Income	**224,943**	(225,000)
Unrealised FX (loss)/gain	**(18,748)**	(70,376)
Share-based employee benefits	**333,901**	228,837
(Increase)/decrease in trade & other receivables	**91,686**	6,840
Increase/(decrease) in trade & other payables	**66,366**	(172,646)
Increase/(decrease) in other provisions	**82,268**	(2,418)
Net cash (outflow) from operating activities	**(4,835,526)**	(4,159,039)

During the year the Company had no non-cash investing or financing activities.

Note 19: Key management personnel disclosures

(a) Key management personnel compensation

	2014 $	2013 $
Short-term employee benefits	**2,245,852**	2,004,586
Post-employment benefits	**203,869**	165,789
Long-term benefits	**140,500**	94,558
Termination benefits	**166,341**	-
Share-based payments	**207,256**	45,981
	2,963,818	2,310,914

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

(b) Equity instrument disclosures relating to key management personnel

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

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

(ii) Option holdings

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

Note 19: Key management personnel disclosures (cont)

2014	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of year	Vested and exercisable	Unvested
Directors of Arafura Resources Limited							
I J Kowalick	-	-	-	-	-	-	-
T Grose	-	-	-	-	-	-	-
C Tonkin	750,000	-	-	-	750,000	750,000	-
S Lu	1,500,000	-	-	(500,000)	1,000,000	1,000,000	-
G Lockyer	1,630,000	2,500,000	-	(1,000,000)	3,130,000	630,000	2,500,000
Key management personnel of the Group							
P Sherrington	700,000	800,000	-	(200,000)	1,300,000	500,000	800,000
R Brescianini	1,480,000	800,000	-	(850,000)	1,430,000	630,000	800,000
N Graham	1,680,000	800,000	-	(750,000)	1,730,000	930,000	800,000
J Ganser	1,250,000	800,000	-	(2,050,000)	-	-	-
B Fowler	700,000	800,000	-	(500,000)	1,000,000	200,000	800,000
Total	9,690,000	6,500,000	-	(5,850,000)	10,340,000	4,640,000	5,700,000

2013	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of year	Vested and exercisable	Unvested
Directors of Arafura Resources Limited							
I J Kowalick	-	-	-	-	-	-	-
T Grose	-	-	-	-	-	-	-
C Tonkin	750,000	-	-	-	750,000	750,000	-
S Lu	1,500,000	-	-	-	1,500,000	1,500,000	-
A Losada-Calderon	1,500,000	-	-	(1,500,000)	-	-	-
Key management personnel of the Group							
R Brescianini	1,050,000	430,000	-	-	1,480,000	1,050,000	430,000
G J Lockyer	1,700,000	430,000	-	(500,000)	1,630,000	1,200,000	430,000
N Graham	1,250,000	430,000	-	-	1,680,000	1,250,000	430,000
J Ganser	1,250,000	-	-	-	1,250,000	1,250,000	-
Total	9,000,000	1,290,000	-	(2,000,000)	8,290,000	7,000,000	1,290,000

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

(iii) Share holdings

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

Note 19: Key management personnel disclosures (cont)

2014	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year (on market trades)	Balance at the end of the year
Directors of Arafura Resources Limited				
I J Kowalick	577,007	-	-	577,007
T Grose	20,000	-	-	20,000
C Tonkin	100,000	-	-	100,000
S Lu	-	-	-	-
G Lockyer	334,014	-	-	334,014
Key management personnel of the Group				
P Sherrington	-	-	-	-
R Brescianini	85,054	-	-	85,054
N Graham	13,513	-	-	13,513
J Ganser	-	-	-	-
B Fowler	-	-	-	-
Total	1,129,588	-	-	1,129,588

2013	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year (on market trades)	Balance at the end of the year
Directors of Arafura Resources Limited				
I J Kowalick	577,007	-	-	577,007
T Grose	-	-	20,000	20,000
C Tonkin	-	-	100,000	100,000
S Lu	-	-	-	-
A Losada-Calderon	-	-	-	-
Key management personnel of the Group				
R Brescianini	85,054	-	-	85,054
G J Lockyer	334,014	-	-	334,014
N Graham	13,513	-	-	13,513
J Ganser*	-	-	-	-
Total	1,009,588	-	120,000	1,129,588

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

(iv) Loans to key management personnel
In the 2013 and 2014 financial year, there were no loans to individuals at any time.

(v) Other transactions with key management personnel
In the 2013 and 2014 financial year, there were no transactions with individuals at any time.

Note 20: 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.

	2014 **$**	2013 $
1. Audit services		
BDO Audit (WA) Pty Ltd		
Audit and review of financial reports	**68,328**	70,000
Total remuneration for audit services	**68,328**	70,000

In 2013, BDO prepared an Independent Expert's Report for inclusion in Arafura's Notice of Meeting regarding the Extraordinary General Meeting which was held for shareholders to vote over ECE Nolans Investment Company Proprietary Limited ("ECE") placement of $45,266,565 shares at an issue price of $0.22 per share.

The report prepared by BDO aimed to provide a conclusion to shareholders and other stakeholders as to the reasonableness of the transaction between ECE and Arafura. Details of the amounts paid for non-audit services have been offset against equity as 'transaction costs' however are separately shown below, noting that no non-audit services were performed in relation to the 2014 financial year:

	2014 **$**	2013 $
1. Non-Audit services		
Related entities of BDO Audit (WA) Pty Ltd		
Independent Expert's Report	**-**	50,590
Total remuneration for non-audit services	**-**	50,590

Note 21: Commitments and contingencies

(a) Mining tenement commitments

	2014 $	2013 $
Within one year	**327,540**	618,265
Later than one year but not later than five years	**1,913,472**	2,139,489
Later than five years	**-**	-
	2,241,012	2,757,754

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

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

(b) Hire purchase commitments

	2014 $	2013 $
Within one year	**-**	16,296
Later than one year but not later than five years	**-**	-
Later than five years	**-**	-
	-	16,296
Less: future finance charges	**-**	(265)
Recognised as liability	**-**	16,031
Represented by:		
Current (note 12)	**-**	16,031
Non-current (note 12)	**-**	-
	-	16,031

Note 21: Commitments and contingencies (cont)

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

(c) Capital commitments

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

(d) Lease commitments:

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

	2014 $	2013 $
Within one year	**325,545**	382,736
Later than one year but not later than five years	**375,148**	-
Later than five years	**-**	-
	700,693	382,736

(e) Contingencies

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

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

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

Note 22: Earnings per share

	2014 Cents	2013 Cents
(a) Basic loss per share		
Basic loss per share (cents per share)	**(1.6)**	(2.8)
(b) Diluted loss per share		
Diluted loss per share (cents per share)	**(1.6)**	(2.8)

	2014 $	2013 $
Net (Loss)	**(6,881,137)**	(11,762,148)
(Loss) used to calculate basic earnings per share	**(6,881,137)**	(11,762,148)
(Loss) used to calculate diluted earnings per share	**(6,881,137)**	(11,762,148)

	2014 Number of shares	2013 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	**441,270,644**	423,536,097
Weighted average number of ordinary shares used in calculating diluted earnings per share	**441,270,644**	423,536,097
Weighted average number of ordinary shares from option conversions which are dilutive and potential ordinary shares that are not used in calculation of diluted earnings per share	**-**	-

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

Note 23: 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 2014 owns 100% of the issued ordinary shares of Arafura Rare Earths Pty Ltd, Arafura Uranium Pty Ltd and Arafura Land Holdings Pty Ltd and 75% of the issued capital in Arafura Iron Pty Ltd. The ultimate parent entity and ultimate controlling party is Arafura Resources Limited which at 30 June 2014 owns 100% of the issued ordinary shares of Arafura Rare Earths Pty Ltd, Arafura Uranium Pty Ltd, Arafura Land Holdings Pty Ltd and 75% of the issued capital in Arafura Iron Pty Ltd.

As at 17 July 2014, Arafura Uranium Pty Ltd changed its name to Arafura Rare Earths Processing Pty Ltd.

(b) Subsidiaries

Interests in subsidiaries are set out in note 24.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 19.

(d) Transactions with related parties

Mr. Tonkin performs financial, technical and advisory services for Arafura Resources Ltd at a contracted rate consistent with industry averages through his consultancy business Catalyst Capital Solutions Pty Ltd. For the 2014 financial year, Mr. Tonkin incurred $71,022 beyond and above his salary as an Executive and Non-Executive Director.

Ms. Lu became director of Sheng Kang Ning Mining Investment Co. Ltd ("SKN") in February 2014. SKN are a 90% owned subsidiary of Shenghe Resources, an entity introduced to Arafura via ECE, engaged to assist with the co-ordination of testwork and other work streams for the Nolans Feasibility Study in China. For the 12 month period ending 30 June 2014, Arafura has paid a total of AUD$222,189 to this entity at rates agreed to by the Board on an "arms length" basis, consistent with the industry.

(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.

Note 23: Related party transactions (cont)

(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.

Note 24: 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	
			2014 %	2013 %
Arafura Rare Earths Pty Ltd	Australia	Ordinary	**100**	100
Arafura Uranium Pty Ltd*	Australia	Ordinary	**100**	100
Arafura Iron Pty Ltd	Australia	Ordinary	**75**	100
Arafura Land Holdings Pty Ltd	Australia	Ordinary	**100**	100

*Arafura Uranium Pty Ltd changed its name to Arafura Rare Earths Processing Pty Ltd on the 17th of July 2014.

Note 25: Interests in possible Joint Ventures/Operations

In order to create additional shareholder value through Arafura's non-core assets, Arafura entered into several agreements (to which various parties will farm-in to Arafura assets) in the 2013 financial year which, if all appropriate investment criteria are met, will result in an ultimate Joint Venture/Operation.

Arafura was able to do so with parties such as Rox Resources Ltd (ASX Announcement: 12/10/12), Ark Mines Ltd (ASX Announcement: 15/01/13) and Ferrowest (ASX Announcement: 16/05/13). The latest updates to the earn in arrangements were released to the market on the 13th of September 2013 and 21st of July 2014.

At 30 June 2014, no farm-in arrangements had converted into a position where more than 50% ownership was transferred. As such all parties continue to meet the earn-in criteria.

Note 25: Interests in possible Joint Ventures/Operations (cont)

A listing of Arafura's tenements held at 30 June 2014, including the rights held/relinquished can be found on the last page of the financial report.

Note 26: Events occurring after the reporting date

On the 2nd of July 2014, Arafura announced the appointment of Sheng Kang Ning (Shanghai) Mining Investment Co. Ltd ("SKN") to facilitate the Chinese optimisation program. SKN is a mineral investment and service company which is 90% owned by Shenghe. Arafura believes this engagement is an important step to assist in the establishment of a long term strategic partnership with Shenghe.

No other matter or circumstance has arisen since 30 June 2014 that has significantly affected, or may significantly affect:

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

Note 27: Share-based payments

Employee option plan

The establishment of the Arafura Resources Limited Employee Share Option Plan (ESOP) was approved by shareholders at the 2013 AGM The options are issued for nil consideration, and are granted at the discretion of the Board. The options cannot be transferred, are not quoted on the Australian Stock Exchange (ASX) and carry no dividend or voting rights. The exercise price is based on the weighted average price at which the Company's shares are traded on the ASX during a specified period immediately before the options are granted. Unless otherwise indicated, options become exercisable one year after the grant date and generally expire within 3 to 5 years after the grant date. Once able to be exercised, options are exercisable at any time whilst the holder is employed by Arafura Resources Limited. When exercisable, each option is convertible into one ordinary share.

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

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

Note 27: Share-based payments (cont)

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 – 2014								
30-Jun-09	31-Dec-13	$0.85	2,400,000	-	-	(2,400,000)	-	-
1-Sep-10	31-Aug-13	$0.98	750,000	-	-	(750,000)	-	-
13-Sep-10	14-Sep-13	$1.08	750,000	-	-	(750,000)	-	-
15-Jul-11	16-Jul-14	$0.96	1,400,000	-	-	(500,000)	900,000	900,000
15-Nov-11	31-Dec-14	$0.81	700,000	-	-	(100,000)	600,000	600,000
25-Nov-11	24-Nov-14	$0.70	1,750,000	-	-	-	1,750,000	1,750,000
10-Jan-13	31-Dec-15	$0.23	2,058,000	-	-	(180,000)	1,878,000	1,878,000
18-Jul-13	18-Jul-16	$0.14	-	7,650,000	-	(900,000)	6,750,000	-
Total			9,808,000	7,650,000	-	(5,980,000)	11,878,000	5,128,000
Weighted average exercise price			$0.73	$0.14	$0.00	$0.77	$0.33	$0.59

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 – 2013								
1-Jul-08	31-Dec-12	$1.19	1,100,000	-	-	(1,100,000)	-	-
30-Jun-09	31-Dec-13	$0.85	2,700,000	-	-	(300,000)	2,400,000	2,400,000
21-Jul-10	20-Jul-13	$0.75	850,000	-	-	(850,000)	-	-
1-Sep-10	31-Aug-13	$0.98	750,000	-	-	-	750,000	750,000
13-Sep-10	14-Sep-13	$1.08	750,000	-	-	-	750,000	750,000
25-Nov-10	26-Nov-13	$1.54	1,100,000	-	-	(1,100,000)	-	-
15-Jul-11	16-Jul-14	$0.96	1,400,000	-	-	-	1,400,000	1,400,000
15-Nov-11	31-Dec-14	$0.81	700,000	-	-	-	700,000	700,000
25-Nov-11	24-Nov-14	$0.70	2,150,000	-	-	(400,000)	1,750,000	1,750,000
10-Jan-13	31-Dec-15	$0.23	-	2,058,000	-	-	2,058,000	-
Total			11,500,000	2,058,000	-	(3,750,000)	9,808,000	7,750,000
Weighted average exercise price			$0.95	$0.23	$0.00	$1.10	$0.73	$1.03

The weighted average remaining contractual life of the share options outstanding at the end of the period was 1.49 years (2013: 1.18 years).

Note 27: Share-based payments (cont)

Fair value of options granted

Key Management Personnel received an aggregate 6,500,000 options out of a total 7,650,000 for the 2014 financial year exercisable at $0.14. Refer to the remuneration report beginning page 28 to determine the fair value expense of options granted during the period ending 30 June 2014.

Arafura uses the "Binomial Model" to value its options. The model inputs for options granted during the year ended 30 June 2014 are:

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

Exercise price	Grant date	Expiry date	Share price at grant date	Expected price volatility	Expected dividend yield	Risk free interest rate
$0.14	18-Jul-13	18-Jul-16	$0.115	74.57%	n/a	2.54%

(b) *Employee share scheme*

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

(c) *Expenses arising from share-based payment transactions*

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

	2014 **$**	2013 $
Options issued under the executive & employee option plan	**333,901**	228,837
	333,901	228,837

Note 28: Parent entity financial information

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

Arafura Resources Ltd (Parent)	2014 $	2013 $
Statement of Financial Position		
Current assets	**24,979,350**	53,728,018
Total assets	**136,776,960**	144,001,651
Current Liabilities	**2,087,316**	2,828,431
Total Liabilities	**2,263,094**	2,940,548
Net Assets	**134,513,866**	141,061,103
Shareholders Equity		
Issued Capital	**194,128,196**	194,128,196
Reserves		
Option Reserve	**11,515,916**	11,182,015
Retained Earnings	**(71,130,245)**	(64,249,108)
Loss for the year	**(6,881,137)**	(11,762,148)
Total comprehensive income	**(6,881,137)**	(11,762,148)

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

All commitments and contingencies of the Group are held in the name of the Parent entity. Refer note 21 for full disclosure of these items.

DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2014

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 2014 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 28 to 43 of the Directors' report (as part of the audited Remuneration Report), for the year ended 30 June 2014 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.

I J Kowalick
Chairman
17 September 2014

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INDEPENDENT AUDITOR'S REPORT

To the members of Arafura Resources Limited

Report on the Financial Report

We have audited the accompanying financial report of Arafura Resources Limited, which comprises the consolidated statement of financial position as at 30 June 2014, 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, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

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Independence

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

Opinion

In our opinion:

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

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

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

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

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Arafura Resources Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO
Glyn O'Brien

Glyn O'Brien

Director

Perth, 17 September 2014

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

1. Statement of issued capital at 31 August 2014:

(a) Distribution of fully paid ordinary shareholders

Size of holding	Number of shareholders	Number of shares
1 – 1000	1,104	582,614
1,001 – 5,000	2,252	6,800,526
5,001 – 10,000	1,439	11,812,474
10,001 – 100,000	2,514	83,757,367
100,001 – and over	345	338,317,663
	7,654	441,270,644

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

(c) As at 31 August 2014, there existed 3,638 shareholders who held less than a marketable parcel of shares.

2. Substantial shareholders at 31 August 2014 as per their notices:

Name	Ordinary shares %
ECE Nolans Inv CO PL	24.86%
JP Morgan Nom Aust Ltd	23.89%

3. Quotation

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

SHAREHOLDER INFORMATION
OF ARAFURA RESOURCES LTD

As at 31 August 2014, the twenty largest shareholders held 262,424,817 of the total fully paid ordinary shares in Arafura Resources Limited and they are:

No.	Name	Shares	% of issued
1	ECE Nolans Inv Co PL	109,699,833	24.86
2	JP Morgan Nom Aust Ltd	105,398,199	23.89
3	Citicorp Nom PL	13,643,122	3.09
4	HSBC Custody Nom Aust Ltd	7,535,153	1.71
5	National Nom Ltd	4,599,320	1.04
6	Lee Jin Koo	2,495,249	0.57
7	Yu Dachang	2,000,000	0.45
8	Wang Jing	1,709,513	0.39
9	BNP Paribas Nom PL	1,662,031	0.38
10	Leach Julian Paul	1,589,568	0.36
11	National Nom Ltd	1,478,038	0.33
12	BNP Paribas Noms PL	1,456,864	0.33
13	Gule Inv PL	1,431,125	0.32
14	Itta Dvlmts PL	1,295,573	0.23
15	Muir Irvin Graham	1,250,535	0.29
16	Gu Jiesheng	1,144,000	0.26
17	ABN Amro Clearing Sydney	1,036,694	0.23
18	Dyer David Alan + A M	1,000,000	0.23
19	Kamdia PL	1,000,000	0.23
20	Best Friend Entps PL	1,000,000	0.23
		262,424,817	

The Group holds the following interests as indicated below as at 30 June 2014:

Tenement reference	Project	Holder	Nature of interest	Interest at beginning of quarter	Interest at end of quarter	Notes
ML 26659	Nolans, NT	Arafura Rare Earths Pty Ltd	Mineral Lease	100%	100%	Application Lodged
EL 28498 EL 28473 EL 29509 EL 27337 EL 24741 EL 30160	Aileron–Reynolds, NT	Arafura Resources Ltd	Exploration Licence	100% 100% 100% 100% 100% 100%	100% 100% 100% 100% 100% 100%	 Application Lodged
EL 24548	Aileron–Reynolds, NT	Arafura Resources Ltd	Exploration Licence	100%	100%	
			Non-iron rights	100%	100%	
		Arafura Iron Pty Ltd	Iron rights	100%	100%	Ferrowest Ltd (FWL) has a right to acquire up to 60% of Arafura Iron Pty Ltd.
EL 29701	Jervois, NT	Arafura Resources Ltd	Exploration Licence	100%	100%	Rox Resources Ltd has a right to acquire up to 70% of the base and precious metals rights

Tenement reference	Project	Holder	Nature of interest	Interest at beginning of quarter	Interest at end of quarter	Notes
EL 10137 ML 24727 ML 27228 ML 25087 ML 25088 ML 25529 ML 27225 ML 27226 ML 27230 ML 27227 ML 27229 ML 29930 MA 389	Frances Creek, NT	Territory Resources Ltd Frances Creek Pty Ltd	Gold Rights Gold Rights Gold Rights Gold Rights Gold Rights Gold Rights Gold Rights Gold Rights Gold Rights Gold Rights Gold Rights Gold Rights Gold Rights	100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 100%	100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 100% 100%	Ark Mines Ltd has a right to acquire up to 70% of the gold rights Applications Lodged for ML 27226 & ML 27230 Ark Mines Ltd has a right to acquire up to 70% of the gold rights Application Lodged for ML 29930
ELR 116 ML 23839 EL 23237	Mt Porter, NT	Arafura Resources Ltd	Exploration Licence in Retention Mineral Lease Exploration Licence	100% 100% 100%	100% 100% 100%	Ark Mines Ltd has a right to acquire up to 70% of all mineral rights on the tenements, with an immediate right to mine ML 23839 subject to regulatory approvals
EL 25754	Pamela, NT	Arafura Resources Ltd	Exploration Licence	100%	100%	Application Lodged