



ARAFURA
RESOURCES LIMITED

ARAFURA
RESOURCES LIMITED

ARAFURA RESOURCES LIMITED

ABN 22 080 933 455

Consolidated Interim Financial Report For the Half-Year Ended 31 December 2014

CORPORATE OFFICE

Level 3, 263 Adelaide Terrace
Perth, Western Australia 6000
Australia

T: + 61 8 6210 7666
F: + 61 8 9221 7966
www.arultd.com

CONTENTS

	Page
Directors' report	2
Auditors' independence declaration	7
Interim financial report	
- Consolidated statement of profit or loss and other comprehensive income	9
- Consolidated statement of financial position	10
- Consolidated statement of changes in equity	11
- Consolidated statement of cash flows	12
- Notes to the consolidated financial statements	13
- Directors' declaration	22
Independent auditor's review report to members	23

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Arafura Resources Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2014.

Directors

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

I J Kowalick

C S Tonkin

S Lu ⁽¹⁾

T Grose

G Lockyer

(1) Ms Lu retired as a Non-Executive Director of the Company on the 17th of November 2014.

Review of operations

During the Half Year ending 31 December 2014, Arafura remained focused on advancing the Nolans Rare Earths Project along the path to development. Attention was focused on the following areas:

Stage 1 Rare Earth extraction program

During the half-year the Company commenced testwork with two China-based institutes for the review and optimisation of the Nolans Rare Earth ("RE") extraction (hydrometallurgical) flowsheet. Samples have been delivered to China and preliminary testwork completed. Initial results from the preliminary programs will be presented and reviewed with the assistance of SKN, Arafura's China based consultant, in early 2015.

The objective of the RE extraction optimisation work is to reduce operating costs for the RE Intermediate Plant. On completion of the preliminary testwork, laboratory-scale Stage 1 test work with both institutes will continue. On completion and analysis of Stage 1 results, a decision will be made to continue with Stages 2 and 3 of the program with one of the two institutes.

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

Australian-based Rare Earth extraction testwork

In parallel with the China-based program, the Company has been progressing targeted confirmatory RE extraction batch and subsequent locked cycle testwork in Australia for the Sulphuric Acid Pre-leach / Double Sulphate Precipitation (“SAPL/DSP”) flowsheet. A key focus of this work has been on testing reduced acid consumption conditions for the SAPL process. Initial testwork produced positive results and subsequent locked cycle tests of the SAPL process using reduced acid ratio conditions were successful in confirming these initial testwork results. Slightly enhanced RE recoveries were also achieved when compared to the higher acid consumption base case.

These SAPL testwork results will be incorporated into the SAPL/DSP process model. The model will provide flows and compositions to permit updating of OPEX and CAPEX estimates. Scope definition is underway for an updated CAPEX estimate to commence in early 2015.

Beneficiation optimisation stage 2 testwork commences

The Chengdu Analytical and Testing Centre for Minerals and Rocks (“CTC”) continued work on the Stage 2 beneficiation optimisation program during the period. The variability testwork component of the Stage 2 program will commence in the March quarter. Samples for the variability work have been prepared and are on hand for shipment to CTC.

Major project status Northern Territory

The development of the Nolans Project is subject to a number of Australian and Northern Territory government approval processes. These governments have determined that the appropriate level of assessment for the Project’s environmental approvals is an Environmental Impact Statement (“EIS”).

Nolans has for some time had Major Project status with the Northern Territory Government (“NTG”). Lead agency arrangements for Major Projects have recently been reviewed by the Department of the Chief Minister (“DCM”). The lead agency for the Nolans Project has recently been assigned to the Department of Mines and Energy (“DME”). The Company also notes DME has assigned a highly experienced case manager who will lead the working group. Arafura is highly appreciative of the efforts of DCM in the review of the lead agency arrangements and looks forward to working with DME to identify, manage and resolve issues impacting on Project delivery.

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

Notice of intent – regulatory approvals

In December the Company lodged an amended Notice of Intent under the Environmental Assessment Act with the Northern Territory Government's Environment Protection Authority ("EPA"). This facilitates a guideline review by the EPA to ensure that the Project's Environmental Impact Statement ("EIS") addresses the impact of the expanded footprint of the Nolans Site, including the Nolans Processing Site, accommodation village, borefield, and all access corridors. The Company expects that amended EIS guidelines will be issued shortly by the EPA.

Proposals from a number of environmental consulting groups to complete the Nolans Site EIS were received and evaluated in December. Work programs included in all the proposals confirm submission of the EIS report to the EPA in Q1 CY2016, in line with the Company's schedule. The Company has recently appointed GHD Pty Ltd as the consultant to perform this work as mentioned in the ASX announcement on 10/02/15.

Other Tenements

Aileron – Reynolds (Rare Earths; water; extractive minerals)

The Company lodged a groundwater extraction licence application with the Water Resources Division of the Northern Territory Government's Department of Land Resource Management (ASX: ARU 22/10/14) during the period to secure water extraction rights from the Southern basins to service the operational requirements of the Nolans Project. The groundwater drilling program has now seen the establishment of fourteen production bores. Data collected from pump testing the production bores has been used to support the water licence application.

During December, the Company also drilled 29 shallow holes as part of a basin margin investigation program. Data from this program will be used to examine the relationship between the eastern margin of the Whitcherry Basin (part of the Southern basins) and the Ti Tree Basin. This work will enable the Company to understand the groundwater flow and flux response during and following rainfall events. The information will be incorporated into the Nolans EIS and is important in seeking the relevant regulatory approvals for the Project.

Yalyirimbi (Iron)

Ferrowest Limited ("Ferrowest"; 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 through an incorporated joint venture. The iron rights are held through Arafura Iron Pty Ltd ("A IPL").

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

Ferrowest has previously announced an estimate of Indicated and Inferred Mineral Resources for Yalyirimbi. During the period Arafura and Ferrowest completed the transfer of the 51% shareholding in AIPL and the appointment of the two Ferrowest nominated directors (ASX: FWL 30/10/14).

Jervois (Base and Precious Metals; Iron-Vanadium)

Rox Resources Limited ("Rox"; ASX: RXL) satisfied the conditions to earn a 51% interest in the base and precious metals mineral rights (Cu-Pb-Zn-Ag-Au-Bi-PGE) over EL 29701. Rox has elected to proceed to increase its interest to 70% by spending a further A\$1 million over two years to 10 December 2016 (ASX: RXL 16/12/14).

During the period Rox completed programs of reverse circulation (RC) and diamond core drilling at the Bonya prospect. Wide intervals of copper-enriched massive sulphides were intersected beneath the abandoned Bonya Mine workings in several drill holes at depths ranging from near surface to approximately 100m. Assays have been reported by Rox (ASX: RXL 20/10/14; 05/11/14; 01/12/14). Further drilling is planned by Rox for the March quarter to investigate the interpreted westerly plunge to the mineralisation.

MT Porter – Frances Creek (Gold)

Ark Mines Limited ("Ark", ASX: AHK) is progressing work to earn a 40% interest in the Mt Porter Project (comprising ML 23839, ELR 116 and EL 23237) and Arafura's gold interests at Frances Creek (MA 389, EL 10137 and several Territory Resources' MLs). Upon completion of the first earn-in benchmark Ark may increase its interest by 30% to a total of 70%.

During the period Ark completed an RC drilling and costeaning program at the Golden Honcho prospect (ASX: AHK 07/10/14). Assays reported by Ark (ASX: AHK 10/11/14) included a number of significant gold intercepts and was successful in increasing the strike length of the prospect by 60m.

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

Segment Information

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

	Segment expenditures		Segment revenues		Capitalised		Segment results	
	2014	2013	2014	2013	2014	2013	2014	2013
	\$	\$	\$	\$	\$	\$	\$	\$
Project evaluation	(2,700,966)	(1,438,851)	-	-	(2,700,966)	(1,438,851)	-	-
Exploration	(214,511)	(742,654)	-	-	(214,511)	(742,654)	-	-
Corporate	(3,027,596)	(3,476,723)	-	-	-	-	(3,027,596)	(3,476,723)
Total(s)	(5,943,073)	(5,658,228)	-	-	(2,915,477)	(2,181,505)	(3,027,596)	(3,476,723)

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

(a) Project evaluation

Expenditure incurred in this segment was primarily used on the review and optimisation of the Nolans Rare Earth extraction (hydrometallurgical) flowsheet by two Chinese based institutes as well as Australian-based Rare Earth extraction testwork. Additional expenditure has also been incurred on the water drilling program as referenced by the ASX release on 22/10/2014.

(b) Exploration

Expenditure incurred in this segment was primarily used to maintain tenements. There has been a significant reduction on in-ground exploration due to a number of tenements being farmed out with companies including Ark Mines Ltd, Rox Resources Ltd and Ferrowest Ltd, as Arafura maintains its primary focus on progressing the Nolans project.

(c) Corporate

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

Events occurring after the Reporting Date

No reportable events have occurred since the reporting date.

AUDITORS' INDEPENDENCE DECLARATION

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

Auditors' independence declaration

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

Signed in accordance with a resolution of the Directors.



Gavin Lockyer
CEO & Managing Director

Perth
18 February 2015

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

As lead auditor for the review of Arafura Resources Limited for the half-year ended 31 December 2014, I declare that to the best of my knowledge and belief, there have been:

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

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



Glyn O'Brien

Director

BDO Audit (WA) Pty Ltd

Perth, 18 February 2015

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**
FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

		Consolidated Entity Half-Year	
		31 Dec 2014	31 Dec 2013
Notes		\$	\$
	Revenue from continuing operations	361,501	533,223
	Other income	6,213	(197,414)
	Employee benefits expense	(1,535,537)	(2,064,647)
	Other expenses	(1,522,180)	(1,626,307)
	Depreciation and amortisation	(82,745)	(56,127)
	Finance costs	(4,951)	(256)
	Impairment of assets	-	(264,072)
	Loss before income tax	(2,777,699)	(3,675,600)
	Income tax benefit	-	-
	Net (Loss) for the half-year	(2,777,699)	(3,675,600)
	Other comprehensive income/ (loss) for the half-year	-	-
	Total comprehensive(loss) for the half-year	(2,777,699)	(3,675,600)
	Total comprehensive (loss) for the half-year attributable to owners of Arafura Resources Limited	(2,777,699)	(3,675,600)
		Cents	Cents
	Loss per share for (loss) attributable to owners of Arafura Resources Limited		
	Basic loss per share	(0.6)	(0.8)
	Diluted loss per share	(0.6)	(0.8)

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 31 DECEMBER 2014

		Consolidated Entity Half-Year	
		31 Dec	30 June
		2014	2014
Notes		\$	\$
CURRENT ASSETS			
	Cash and cash equivalents	18,501,946	24,547,030
	Trade and other receivables	179,087	433,350
	Total Current Assets	18,681,033	24,980,380
NON-CURRENT ASSETS			
	Property, plant and equipment	188,601	194,104
5	Deferred exploration, evaluation and development costs	114,517,953	111,602,476
	Other Assets	256,306	-
	Total Non-Current Assets	114,962,860	111,796,580
	TOTAL ASSETS	133,643,893	136,776,960
CURRENT LIABILITIES			
	Trade and other payables	1,058,405	1,618,877
6	Provisions	426,937	468,439
	Total Current Liabilities	1,485,342	2,087,316
NON-CURRENT LIABILITIES			
6	Trade and other payables	387,312	175,778
	Total Non-Current Liabilities	387,312	175,778
	TOTAL LIABILITIES	1,872,654	2,263,094
	NET ASSETS	131,771,239	134,513,866
EQUITY			
7	Contributed equity	194,128,196	194,128,196
	Reserves	11,550,988	11,515,916
	Accumulated losses	(73,907,945)	(71,130,246)
	TOTAL EQUITY	131,771,239	134,513,866

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

Consolidated	Notes	Contributed equity \$	Equity reserve \$	Accumulated Losses \$	Total \$
Balance at 1 July 2013		194,128,196	11,182,015	(64,249,109)	141,061,102
Total Comprehensive Loss for Half Year					
Loss for the half-year		-	-	(3,675,600)	(3,675,600)
Total Comprehensive Loss for Half Year		-	-	(3,675,600)	(3,675,600)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs and tax		-	-	-	-
Cost of Share based Options		-	214,232	-	214,232
		-	214,232	-	214,232
Balance at 31 December 2013		194,128,196	11,396,247	(67,924,709)	137,599,734
Balance at 1 July 2014		194,128,196	11,515,916	(71,130,246)	134,513,866
Total Comprehensive Loss for Half Year					
Loss for the half-year		-	-	(2,777,699)	(2,777,699)
Total Comprehensive Loss for Half Year		-	-	(2,777,699)	(2,777,699)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs and tax		-	-	-	-
Cost of Share based Options		-	35,072	-	35,072
		-	35,072	-	35,072
Balance at 31 December 2014	7	194,128,196	11,550,988	(73,907,945)	131,771,239

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

	Consolidated Entity Half-Year	
	31 Dec 2014	31 Dec 2013
	\$	\$
Cash flows from operating activities		
Payments to suppliers and employees	(3,217,413)	(3,443,322)
Interest received	435,111	403,523
Interest Paid	(4,951)	(2,601)
Other	269,746	-
Net cash (outflow) from operating activities	(2,517,507)	(3,042,400)
Cash flows from investing activities		
Payment for property, plant and equipment	(70,242)	(21,764)
Payments for exploration and evaluation	(3,463,548)	(3,196,326)
Net cash inflow/(outflow) from investing activities	(3,533,790)	(3,218,090)
Cash flows from financing activities		
Repayments of finance lease	-	(5,141)
Net cash (outflow) from financing activities	-	(5,141)
Net (decrease) in cash and cash equivalents	(6,051,297)	(6,265,631)
Cash at the beginning of the financial period	24,547,030	32,183,321
Effects of exchange rate changes	6,213	27,586
Cash and cash equivalents at the end of the financial period	18,501,946	25,945,276

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

Note 1: Basis of Preparation of Half-Year Report

(a) Basis of preparation

This general purpose financial report for the interim half-year reporting period ended 31 December 2014 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2014 and any public announcements made by Arafura Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

New and amended standards adopted by the entity

A number of new or amended standards became applicable for the current reporting period, however, the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards. There may be some changes to the disclosures in the 30 June 2015 annual report as a consequence of these amendments.

Impact of standards issued but not yet applied by the entity

There were no new standards issued since 30 June 2014 that have been applied by Arafura Resources Ltd. The 30 June 2014 annual report disclosed that Arafura Resources anticipated no material impacts (amounts recognised and/or disclosed) arising from initial application of those standards issued but not yet applied at that date, and this remains the assessment as at 31 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

Note 2: Segment Information

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

(a) Description of segments

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

- (i) Project evaluation segment
- (ii) Exploration segment
- (iii) Corporate

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

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

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

(b) Segment information provided to the Arafura Board

Management has determined, based on strategic management reports on each segment reviewed by the Arafura Board, that the Group assesses the performance of operating segments based on a measure of adjusted EBITDA. As such this measurement excludes the effects of certain expenditure from operating segments as shown in the reconciliation of adjusted EBITDA below.

The segment information provided to the Arafura Board for the reportable segments for the half-year ended 31 December 2014 is as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

CONSOLIDATED		Project evaluation	Exploration	Corporate	Total
6 Months to 31 December 2014					
Segment revenue		-	-	-	-
Segment expenditure		(2,700,966)	(214,511)	(3,027,596)	(5,943,073)
		(2,700,966)	(214,511)	(3,027,596)	(5,943,073)
Adjusted EBITDA		-	-	(3,027,596)	(3,027,596)
Capitalised expenditure		(2,700,966)	(214,511)	-	(2,915,477)
		(2,700,966)	(214,511)	(3,027,596)	(5,943,073)
6 months to 31 December 2013					
Segment revenue		-	-	-	-
Segment expenditure		(1,438,851)	(742,654)	(3,476,723)	(5,658,228)
		(1,438,851)	(742,654)	(3,476,723)	(5,658,228)
Adjusted EBITDA		-	-	(3,476,723)	(3,476,723)
Capitalised expenditure		(1,438,851)	(742,654)	-	(2,181,505)
		(1,438,851)	(742,654)	(3,476,723)	(5,658,228)
Total segment assets					
	31-Dec-14	100,609,678	13,908,275	19,125,940	133,643,893
	30-Jun-14	97,904,628	13,697,848	25,174,484	136,776,960
Total segment liabilities					
	31-Dec-14	722,801	29,718	1,120,135	1,872,654
	30-Jun-14	1,252,968	33,295	976,831	2,263,094

	2014	2013
Adjusted EBITDA	(3,027,596)	(3,476,723)
Interest Received	361,501	533,223
Finance Costs	-	(256)
Depreciation & amortisation	(82,745)	(56,127)
Share option expense	(35,072)	(214,232)
Income accrued from Demonstration Plant reimbursement	-	(225,000)
Impairment on assets	-	(264,071)
Unrealised exchange rate gain	6,213	27,586
Loss before income tax	(2,777,699)	(3,675,600)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

Note 3: Revenue

	Consolidated Entity Half-Year	
	31 Dec 2014 \$	31 Dec 2013 \$
Revenue from continuing operations		
<i>Other revenue</i>		
Interest received	361,501	533,223
	361,501	533,223
Other Income		
Foreign exchange gain	6,213	27,586
Other	-	(225,000)
	6,213	(197,414)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

Note 4: Expenses

(a) Expenses

Depreciation

	31 Dec 2014 \$	31 Dec 2013 \$
Depreciation – plant & equipment	18,060	39,903
Depreciation – motor vehicles	-	5,860
Depreciation – leasehold improvements	64,685	10,364
Total depreciation	<u>82,745</u>	<u>56,127</u>

Finance costs

Interest expense	4,951	256
Total finance costs	<u>4,951</u>	<u>256</u>

Other expenses

Accounting and other professional fees	15,246	8,648
Audit fees	16,560	25,000
Consultants fees	455,248	456,787
Employee benefits expense	1,500,465	1,850,415
Insurance	35,329	57,023
Legal fees	150,067	155,522
Share-based employee benefits	35,072	214,232
Share registry and stock listing fees	49,433	56,867
Other expenses	800,297	866,460
Total other expenses	<u>3,057,717</u>	<u>3,690,954</u>

Impairment Expenses

Capitalised exploration expenditure	-	264,072
Total impairment of assets	<u>-</u>	<u>264,072</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

Note 5: Deferred Exploration and Evaluation Expenditure

Consolidated Entity Half- Year	
31 Dec 2014	30 Jun 2014
\$	\$

Exploration, evaluation and development costs carried forward

Balance at beginning of financial period	111,602,476	111,037,558
Capitalised exploration expenditure	214,511	521,318
Capitalised evaluation expenditure ^(a)	2,700,966	4,498,928
Impairment of exploration expenditure	-	(1,243,013)
Impairment of capitalised EIS costs - Whyalla	-	71,884
R&D Tax Incentive rebate receipted against capitalised evaluation costs	-	(3,284,199)
Balance at end of financial period ^(b)	114,517,953	111,602,476

- (a) Capitalised evaluation expenditure is expenditure on the Nolans Project feasibility works and environment impact assessment to evaluate, formulate and demonstrate the technical feasibility and commercial viability in developing a Rare Earths processing plant to process and treat the ore to be mined from the Nolans Project.
- (b) No R&D rebate for current period as the claim for 30 June 2014 is yet to be lodged.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

Note 6: Current and Non-Current Liabilities - Provisions

Consolidated Entity Half-Year	
31 Dec 2014 \$	30 Jun 2014 \$

Current

Provision for Annual Leave	234,437	202,539
Provision - Demonstration plant and liquids ^(a)	10,000	265,900
Provision – Operating Lease Incentive	182,500	-
	426,937	468,439

Non-Current

Provision for long service Leave	220,020	175,778
Provision – Operating Lease Incentive	167,292	-
	387,312	175,778

Note 7: Contributed Equity

Issues of ordinary shares during the half-year:

	December 2014 Shares	December 2013 Shares	December 2014 \$	December 2013 \$
Balance at 30 June	441,270,644	441,270,644	194,128,196	194,128,196
Employee options exercised	-	-	-	-
Private Placement	-	-	-	-
Capital raising costs	-	-	-	-
Balance at 31 December	441,270,644	441,270,644	194,128,196	194,128,196

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

Note 8: Contingent Liabilities

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

Note 9: Dividends

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

Note 10: Related Party Transactions

During the half-year, Arafura issued 8,190,000 options to employees, 5,400,000 of these options were issued to Key Management Personnel. The table below outlines the details of the options issued to Key Management Personnel:

Key Management Personnel	Options Tranche	No. Options	Exercise price	Fair Value over HY Period	Fair Value over vesting period	Grant date	Vesting date	Expiry date
Gavin Lockyer	First	1,000,000	\$0.105	\$1,797	\$16,000	20/11/14	20/11/15	20/11/18
Gavin Lockyer	Second	1,000,000	\$0.105	\$955	\$17,000	20/11/14	20/11/16	20/11/18
Gavin Lockyer	Third	1,000,000	\$0.105	\$674	\$18,000	20/11/14	20/11/17	20/11/18
Peter Sherrington	First	200,000	\$0.105	\$907	\$3,600	30/09/14	30/09/15	30/09/18
Peter Sherrington	Second	200,000	\$0.105	\$555	\$4,400	30/09/14	30/09/16	30/09/18
Peter Sherrington	Third	200,000	\$0.105	\$420	\$5,000	30/09/14	30/09/17	30/09/18
Richard Brescianini	First	200,000	\$0.105	\$907	\$3,600	30/09/14	30/09/15	30/09/18
Richard Brescianini	Second	200,000	\$0.105	\$555	\$4,400	30/09/14	30/09/16	30/09/18
Richard Brescianini	Third	200,000	\$0.105	\$420	\$5,000	30/09/14	30/09/17	30/09/18
Neil Graham	First	200,000	\$0.105	\$907	\$3,600	30/09/14	30/09/15	30/09/18
Neil Graham	Second	200,000	\$0.105	\$555	\$4,400	30/09/14	30/09/16	30/09/18
Neil Graham	Third	200,000	\$0.105	\$420	\$5,000	30/09/14	30/09/17	30/09/18
Brian Fowler	First	200,000	\$0.105	\$907	\$3,600	30/09/14	30/09/15	30/09/18
Brian Fowler	Second	200,000	\$0.105	\$555	\$4,400	30/09/14	30/09/16	30/09/18
Brian Fowler	Third	200,000	\$0.105	\$420	\$5,000	30/09/14	30/09/17	30/09/18
TOTAL		5,400,000		\$10,954	\$103,000			

Note 10: Related Party Transactions (cont.)

Other related party transactions

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 half year to December 2014, Mr. Tonkin incurred \$42,130 beyond and above his salary as a 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 6 month period ending 31 December 2014, Arafura has paid a total of AUD\$317,813 to this entity at rates agreed to by the Board on an “arms length” basis, consistent with the industry.

Ms. Lu retired as a director of Arafura Resources Ltd on the 17th of November 2014.

Note 11: Events occurring after the Reporting Date

No reportable events have occurred after the reporting date.

DIRECTORS' DECLARATION

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 9 to 21 are in accordance with the *Corporations Act 2001*; and
 - (i) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) give a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date.
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



Gavin Lockyer
CEO & Managing Director

Perth
18 February 2015

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Arafura Resources Limited

Report on the Half-Year Financial Report

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

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Arafura Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

BDO Audit (WA) Pty Ltd



Glyn O'Brien

Director

Perth, 18 February 2015