



**AN EMERGING
RARE EARTHS
PRODUCER**
FOR USERS
WORLDWIDE

Arafura Resources Limited

ABN 22 080 933 455

Annual Report

30 June 2015

Registered Office and Principal Place of Business

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

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CORPORATE DIRECTORY

Directors

Ian Kowalick
(Chairman and Non-Executive Director)

Gavin Lockyer
(Managing Director)

Chris Tonkin
(Non-Executive Director)

Terry Grose
(Non-Executive Director)

Cungen Ding
(Non-Executive Director)

Company Secretary

Peter Sherrington

Annual General Meeting to be held at

ANZAC House, Gallipoli Room
28 St George's Tce, Perth,
Western Australia

Time

10.00am (WST)

Date

Thursday, 19 November 2015

Principal registered office in Australia

Level 3, 263 Adelaide Terrace
Perth
Western Australia 6000

Share registry

Link Market Services Ltd
Level 4, 152 St Georges Terrace
Perth
Western Australia 6000

Auditor

BDO Audit (WA) Pty Ltd
38 Station Street
Subiaco
Western Australia 6008

Solicitors

Johnson Winter and Slattery
Level 4, 167 St Georges Terrace
Perth
Western Australia 6000

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.arultd.com

CHAIRMAN'S REPORT

Dear Shareholder,

On behalf of your Board of Directors, I am pleased to present the 2015 financial year report.

The past 12 months have been an extremely volatile period for the world economy with a negative impact on economic growth and flat demand for both the global rare earths ("REs") industry, and more generally the resource sector.

Earlier this year China, the dominant RE producer, implemented significant policy changes to its RE industry in response to a World Trade Organisation ruling that its quota system and export controls violated trade rules.

China removed longstanding trade restrictions on REs by abolishing export taxes and quotas, implementing a new RE licensing structure and modifying the RE resources tax. China also commenced the consolidation of its many RE producers into six hubs, each controlled by a state-owned enterprise.

A key aim of these significant policy changes is to curb the illegal RE production and export, which negatively impacted on China's regulated RE sector. The changes will consolidate the numerous RE producers that emerged from the high, unsustainable RE price rises in 2011.

Whilst this volatile RE market has intensified the short-term uncertainty for global RE supply, it has highlighted a number of the advantages of the Nolans Project as a future cost-competitive and secure RE supplier.

The traditional notion of the 'basket of REs' is now less relevant as RE suppliers and users outside of China become more sophisticated, and investors gain a better understanding of the market segments supplied by different REs.

It is becoming increasingly important for RE companies to highlight the specific REs that are produced and from which REs they expect to extract most value. This is reflected in the recent modifications to China's RE resources tax. Some REs may not benefit from the tax changes being translated into higher sales revenues because not all REs are scarce, some have substitutes, but others are scarce and have no easy substitutes so they have a high deprival value to end users. Higher prices are likely to be sustained for the REs on which Arafura is focused at Nolans: neodymium ("Nd") and praseodymium ("Pr").

Nd and Pr constitute 59% of the overall value of the global RE market and are projected to have strong growth as NdPr is a critical raw material input for high strength permanent magnets that are now widespread in consumer electronics, and the automotive transport and renewable energy sectors. With demand for permanent magnets forecast to grow by 10% annually over the next decade, security of supply of NdPr will become increasingly important, particularly as structural changes take place in China and market participants look to lock in secure alternative RE sources.

Nolans is founded on one of the world's best NdPr resources. It is located in the Northern Territory, a jurisdiction which is ranked in the top quartile globally for mining investment. These features help to position Arafura as a leading candidate to meet the NdPr supply security gap.

CHAIRMAN'S REPORT

The extensive and ongoing de-risking work undertaken by the Arafura team and its Chinese RE expert partners will ensure Nolans comes into production with the lowest possible capital and operating costs. This work will allow the completion of the Nolans Definitive Feasibility Study ("DFS") and improve the fundability of the Project.

Arafura has taken measures to reduce operating costs to conserve its funds to be able continue to find further efficiencies in the Project's flowsheet and obtain its regulatory approvals. However, we must acknowledge there is a need to secure an equity partner to complete the DFS and secure project funding.

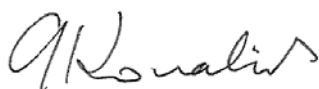
Our social licenses to operate are an important part of the regulatory process and Arafura has made significant inroads this year to complete the relevant studies. It is expected that the Environmental Impact Statement, which includes an assessment of the Project's social impacts will be lodged with the Northern Territory Environment Protection Authority in the first quarter of 2016.

The prospects for resource companies are closely linked to global economic conditions. Clearly the boom is over and clouds persist on the horizon, especially reduced growth in China. That uncertainty will continue to impact the RE sector and broader equities market. The short term thus requires caution. However in the medium term Arafura is positioned to capitalise on the long-term fundamentals of demand for NdPr, and has strategic Chinese partnerships in place that can provide the relevant expertise to realise the most value from this key product.

I would like to extend a formal welcome to Mr Cungen Ding as Non-Executive Director to the Board. Mr Ding has more than 30 years' experience in the resources sector and is the currently the Chief Geologist and Chairman of Jiangsu Eastern China Non-Ferrous Metals Investment Holding Co. Ltd. This is a subsidiary of Eastern China Geological & Mining Bureau for Non-Ferrous Metals ("ECE"), Arafura's largest shareholder.

Finally I would like to thank my fellow Directors and acknowledge the management team and workforce at Arafura for their hard work and continued commitment over a difficult 12 months. More important, I thank you, our shareholders, for your continuing support and I look forward to updating you on Arafura's progress during the year.

Yours sincerely,



Ian Kowalick

Chairman

MANAGING DIRECTOR'S REVIEW

On behalf of the team at Arafura Resources, I am pleased to report on progress the Company has made over the past 12 months. The Company has recorded a number of important milestones to further advance the Nolans Rare Earths ("RE") Project in the Northern Territory, and these achievements help build on the strong foundation already in place to position the Company towards development.

Against the challenging backdrop of significant RE policy changes instituted by China, the world's dominant producer, that, in part, has led to the recent decline in RE prices, our team has continued to work tirelessly to achieve further efficiencies at Nolans in order to counter-balance this near-term uncertainty.

Despite this short-term volatility, the market fundamentals for Arafura's key magnet-feed rare earths - Neodymium ("Nd") and Praseodymium ("Pr") - remain robust, with demand forecast to grow at an average of 10% compound annual growth rate (CAGR) until 2020.

To this end, we are very pleased the comprehensive Nolans Development Report ("NDR"), released in September 2014, reinforced Arafura's position to be a world-leading producer of NdPr from a safe and secure jurisdiction. The NDR also validated Arafura's ongoing focus on NdPr and our continuing work to maximise the extraction of this high value and in-demand product, which is projected to generate 75-80% of Nolans revenue once production commences.

This positions Arafura with a uniquely advanced Project, with further scope to refine capital and operating costs and de-risk the path to production. With existing alliances with key strategic Chinese partners providing a gateway to RE expertise, and the substantial resource assessment and process development work Arafura has undertaken over the past eight years, Arafura is well positioned to be a dominant supplier of NdPr outside of China.

Continuing with our Strategy

Over the past 12 months, the Arafura team has stepped up its efforts into finding additional operational efficiencies at the Nolans Project following previous work that had culminated in the NDR.

In June, Arafura announced a further reduction in operating costs at Nolans – a decline of more than 7% to US\$11.22/kg of REO – to a level that makes Arafura competitive with existing producers. This followed a review of process optimisation work in both China and Australia and was achieved largely due to material reductions in the consumption of sulphuric acid and the resulting production of waste residues. The next logical steps are to construct and operate an optimised integrated pilot plant prior to commencing detailed engineering design activities; however this is a costly exercise which the Company will undertake after securing appropriate finance. In the interim, Arafura continues to investigate efficiencies in both capital and operating costs to best position the Project for when piloting activities are advanced.

The Company also continued to assess a number of offshore locations for our proposed RE Separation Plant. In the latter half of the year, we advised that we had signed a non-binding Letter of Intent with South Korean chemical manufacturer OCI Company Limited ("OCI").

MANAGING DIRECTOR'S REVIEW

This agreement opens up a new partnership for the potential location of the Project's RE Separation Plant in an area where access to raw materials needed to separate and refine our rare earth products, and most particularly our key NdPr product, is most cost effective. OCI also has relevant expertise in operating and maintaining complex chemical operations in South Korea and elsewhere.

As the agreement is non-binding, Arafura continues to assess alternative options for the Plant location, with the process of finalising site selection well advanced.

The Company continues to actively progress discussions with a number of multinational companies regarding potential RE offtake. These discussions are at an advanced stage, and I look forward to updating you with any material developments that transpire.

Laying The Foundation For Regulatory Approval

As part of the program to progress Nolans towards a positive final investment decision, Arafura commenced activities to secure all necessary regulatory approvals in a timely manner.

These activities include the Northern Territory Environment Protection Authority issuing the final Terms of Reference for the Project's Environmental Impact Statement ("EIS"). In addition, Arafura lodged tenement applications to secure title to land that will host the RE Intermediate Plant, as well as an application for a groundwater extraction licence.

This work ran in parallel with an escalation in our stakeholder consultation program. This program constitutes one of the more critical elements of the work needed to ready Nolans for development and to ensure that we obtain our "social licence to operate".

To that end, I am taking an active role in our engagement activities and am pleased to report that meetings have been cordial, with all stakeholders keen to understand the impact of the Nolans Project on the local community.

Targeting Efficiencies to Deliver Nolans

With a focused strategy to advance the Nolans Project to a positive investment decision, Arafura continues to strive for efficiencies in the business. In the 2015 financial year, the Company's Perth head office was relocated to smaller premises, the 2013 policy to freeze salaries was maintained and opportunities to further reduce overhead costs were evaluated.

Coupled with a cash balance of A\$16.6 million at the end of the reporting period, the Company maintains a strong financial position and is well funded for near-term activities.

Looking ahead

Despite the current pessimism in both capital and RE markets, Arafura is advancing key aspects of the Nolans Project that best position the Company for when favourable market conditions return. This means a focus on obtaining regulatory approvals for the Project at the expense of advancing detailed engineering.

MANAGING DIRECTOR'S REVIEW

THANK YOU

On behalf of the Arafura team, I would like to sincerely thank you for your loyalty and support as a shareholder of the business. We are excited about the significant milestones we have achieved thus far and continue to make great strides in laying the groundwork necessary to position the Nolans Project for maximum success. I look forward to providing further updates on the business over the coming months.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Gavin Lockyer', with a stylized flourish at the end.

Gavin Lockyer
Managing Director

OPERATIONS REVIEW

HIGHLIGHTS

- Release of Nolans Development Report provides a comprehensive detailed analysis of substantial technical de-risking work on Nolans Project
- Report provides solid foundation for the advanced stages of the Nolans Definitive Feasibility Study
- Activities commenced to achieve relevant regulatory approvals in a timely manner
- Key stakeholder and community engagement escalated to achieve a positive final investment decision for Nolans

Arafura Resources is focused on becoming a leading global supplier of rare earths (“REs”), specifically high-value and in-demand REs neodymium (“Nd”) and praseodymium (“Pr”) that are critical raw material inputs for the manufacture of high-strength permanent RE magnets.

Applications of RE magnets cover a wide variety of high-growth sectors due to their unique properties that help make certain technologies perform with greater efficiency. These include transportation and vehicles, consumer electronics, aerospace and defence and renewable energy.

Arafura’s advanced and wholly owned Nolans Rare Earths Project in Australia’s Northern Territory hosts one of the world’s largest low-risk resources of NdPr. Together, sales of NdPr are forecast to generate approximately 75-80% of Arafura’s revenue.

Development of the Project will comprise a mine, concentrator, RE intermediate plant and related infrastructure located at the Nolans site in the Northern Territory, and an RE separation plant to be constructed and located within an established chemical industry precinct at an offshore location.

NOLANS DEVELOPMENT REPORT

In September 2014, Arafura provided a comprehensive update on the Nolans Project with the release of the Nolans Development Report (“NDR”).

It outlined the Company’s development plans for Nolans and presented a detailed analysis of the work that had been undertaken during recent years to support the Company’s strategy of de-risking the Project’s pathway to production, and its vision to be one the world’s leading RE companies. This followed the reconfigured production process that included the relocation of intermediate chemical processing and all associated waste management to the Nolans site, and the RE separation plant being located in an established offshore chemical precinct.

A key outcome of the NDR was the reinforcement of the robust economics of the Project. It also reinforced Arafura’s potential to be a world-leading producer of NdPr from a safe and secure jurisdiction. The Company is working towards supplying the Asian and European magnet industry with 5,300 tonnes of NdPr oxide each year.

With such a significant endowment of NdPr, Arafura’s focus is on optimising the selected process flowsheet to maximise the recovery of this high revenue product stream.

OPERATIONS REVIEW

DEFINITIVE FEASIBILITY STUDY

The completion and release of the NDR provided a comprehensive foundation for the Nolans Definitive Feasibility Study (“DFS”).

The scope of the DFS includes the completion of flowsheet validation, including the Chinese optimisation program that was aimed at providing additional efficiencies to a number of unit processes, and the construction and operation of an integrated pilot plant (“IPP”).

In June 2015, Arafura advised of a 7.4% reduction in operating costs to US\$11.22/kg of REO, or US\$41.55/kg of NdPr oxide, following a review of optimisation work undertaken in China and Australia over the past two years.

The decrease reflected a material reduction in the amount of sulphuric acid used in the RE extraction flowsheet, and in the amount of waste residues subsequently generated. These reductions are expected to impact favourably on the Project’s environmental and community risks.

Arafura continues to look for efficiencies to further refine the Project’s capital and operating costs, particularly considering the challenging capital markets and recent changes in Chinese RE policies. While the ongoing optimisation programs have successfully delivered a significant reduction in operating costs, Arafura is waiting on its final outcomes before commencing activities related to the IPP.

PARTNERSHIP ARRANGEMENT

Over the past six months Arafura has assessed a number of offshore locations for the proposed RE separation plant, and the process of selecting a site is well advanced.

During Q4 FY2015 Arafura executed a non-binding Letter of Intent (“LOI”) with South Korean chemical manufacturer OCI Company Limited (“OCI”) to work towards a strategic partnership agreement to form a Joint Venture RE separation plant to be located in the Saemangeum-Gunsan Free Economic Zone on South Korea’s central west coast.

The LOI also contemplates the parties examining the feasibility of OCI delivering long term supply of chemical reagents for the operation of the plant, and OCI leveraging its existing skills and expertise to operate and maintain the plant and other processing responsibilities in South Korea.

OPERATIONS REVIEW

REGULATORY APPROVALS

Environment

During the reporting period and following a public review period in May 2015, the Northern Territory Environment Protection Authority finalised and issued the Terms of Reference ("ToR") for the Project's Environmental Impact Statement ("EIS").

Receipt of the ToR allows the Company's consultants, GHD, to recalibrate the scope of the EIS studies against these guidelines so all impact aspects of the Project are fully addressed in the EIS. The EIS is on track for completion in Q3 FY2016.

Land tenure

The EIS work follows the acceptance by the NT Government's Department of Mines and Energy of the Company's three Mineral Lease applications (MLs 30702, 30703 and 30704) over the Nolans Processing Site.

The site will cover the proposed locations of the RE intermediate plant, process residue storage facilities, evaporation ponds and accommodation village. Together these MLs and the Nolans Mine Site ML 26659 represent the focus of Arafura's development activities at Nolans.

Granting of all MLs is targeted for Q4 FY2016 and is subject to the successful completion of an Indigenous Land Use Agreement with the region's Anmatjere native title holders and receipt of environmental approval.

Water

In October 2015, Arafura commenced steps to secure the water supply for Nolans through the application for a groundwater extraction licence.

The application was lodged with the NT Government's Department of Land Resource Management, and followed a successful exploration and investigation program in a previously unexplored basin area approximately 20 kilometres southwest of the Nolans Site.

The new groundwater system covers a large area, is high yielding and is of a quality that is suitable to supply the Project over its operating life.

Importantly, this system represents a viable sustainable alternative to the highly valued Ti Tree Basin, and there are limited competing users that are reliant on it.

OPERATIONS REVIEW

COMMUNITY AND STAKEHOLDER ENGAGEMENT

Arafura escalated engagement opportunities and consultation this year as information from the Nolans EIS studies become available and the Project progresses toward a final investment decision.

In the latter half of FY2015, a number of local stakeholder groups were provided with briefings and overview of the Project. These groups included local and Northern Territory government representatives, mining industry representatives and local business groups.

Part of the briefings included the distribution of several uniquely targeted factsheets that addressed specific concerns that may be relevant to particular stakeholder groups or the community at large. Arafura will continue to update the factsheets as and when certain developments take place at the Nolans Project.

The Company has in place an extensive community and stakeholder engagement plan for the balance of the year. The objective of this plan is to ensure stakeholders have an understanding of the Nolans Project to ensure the community is fully informed and willing to work with the Company in gaining its social licence to operate.

RARE EARTHS MARKET OVERVIEW

Chinese policy changes

In the latter part of the reporting period, dominant RE producer China announced significant changes to its export quota and tariff policies that govern its RE sector.

China's Ministry of Commerce ("MOFCOM") abolished longstanding trade restrictions on REs by removing export duties (taxes), export quotas and limitations on enterprises to export REs. These measures have been replaced by an export licensing administration system that requires exporters to obtain a permit to trade REs. Exports of REs will now only occur through eight designated ports with export permits issued on the basis of international trade contracts.

In parallel developments, China's consolidation process for the RE industry is well underway. Many small RE producers have been absorbed into six hubs with each hub controlled by a state owned enterprise ("SOE").

The consolidation of China's RE industry together with the restriction of the number of ports through which REs can be exported are aimed at imposing greater control over the illegal production and smuggling of REs.

New tax system

Prior to May 2015 China levied export tariffs on REs. In the lead up to the removal of the tariffs many foreign buyers exited the market deferring procurement activities until after tariffs were removed. The withdrawal of foreign buyers left some producers with large inventories of most REs. This, along with other market conditions, had the effect of applying downward pressure on RE prices.

OPERATIONS REVIEW

In response to the removal of these tariffs China adjusted its RE resources tax to now apply to the value of RE concentrate. These taxes are levied on the producers of RE concentrates and will now apply to REs sold to domestic and export customers alike. The effectiveness of the revised tax regime will largely depend on the ability of authorities to regulate the activities of illegal producers.

To date the market does not appear to have been impacted by the adjustment to the RE resources tax. It is likely it will take some time for the impact of this tax to pass through to the sales of REs.

Due to high supply and modest demand growth, some REs such as cerium (“Ce”) and yttrium (“Y”) may not be able to sustain higher prices as a result of the resources tax being passed on. However, it is likely that higher prices will be sustainable for NdPr and dysprosium (“Dy”) due to stronger outlook for their use in RE magnets.

China’s illegal rare earth production

China’s RE export quotas were approximately 30,000 tonnes per annum from 2010 through to until when they were removed in 2015. China-based producers have in recent years been unable to fill the export quotas, and this was to some extent due to the availability of illegally produced and smuggled material. In the nine months to May 2015, approximately 12,400 tonnes of REs were exported illegally, according to the Ministry of Industry and Information Technology (“MIIT”).

Chinese authorities appear to be putting into action their intentions to “crack down” on the illegal trading of REs, building on the efforts of MIIT over the past four years in closing 55 illegal rare earth producers and 22 illegal mines.

Market commentary

According to official customs data, China exported a total of 17,539 tonnes of REs in the first seven months of 2015, up 10% from 15,900 tonnes in the same period last year. Foreign buyers have not made a significant return to the RE market as they are now more comfortable that supply is much less restricted, with producers appearing to offer lower prices to deal with stockpiles and to boost sales volumes.

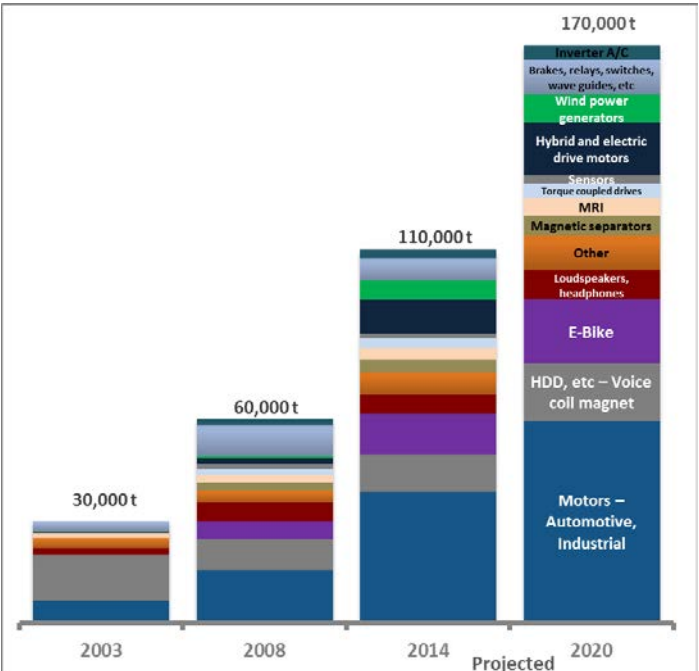
The removal of export tariffs and the introduction of a revised resources tax have created some uncertainty for RE prices in the short term. However, the Company’s view is that the crackdown by the SOEs on illegal mining, production and smuggling of REs will have a positive impact on RE prices in the future. Along with the combination of the resources tax, tighter environmental regulations and a shift to production control via industry consolidation, Arafura believes this will help to drive up RE prices in the medium term.

OPERATIONS REVIEW

NdPr OUTLOOK

Demand for NdPr through its use in permanent magnets represents strong forward growth prospects.

Permanent magnets are fundamental for a transition to a low carbon economy. Developments of ultra-strong Neodymium-Iron-Boron (“NdFeB”) magnets have found greater use and innovation in clean technologies aimed at reducing emissions and improving energy efficiency in the auto industry, wind energy, industrial motors and energy saving home electrical appliances. The chart below illustrates the way in which the demand drivers for permanent magnets have changed over the past decade, and the continued transformation that is anticipated over the forecast period to 2020.



Growth drivers for NdFeB permanent magnets. Volumes represent sintered NdFeB magnet output.
Source: Japanese, American and Chinese magnet producers, trading companies and industry associations.

Industry experts¹ anticipate strong demand growth of NdPr in permanent magnets of 10% p.a. over the next five to ten years. Large industrial economies face major challenges to reduce greenhouse gas emissions and develop low carbon economies, and Chinese policy makers have identified the use of permanent magnet motors in transportation and industry as a key driver to meet its objectives.

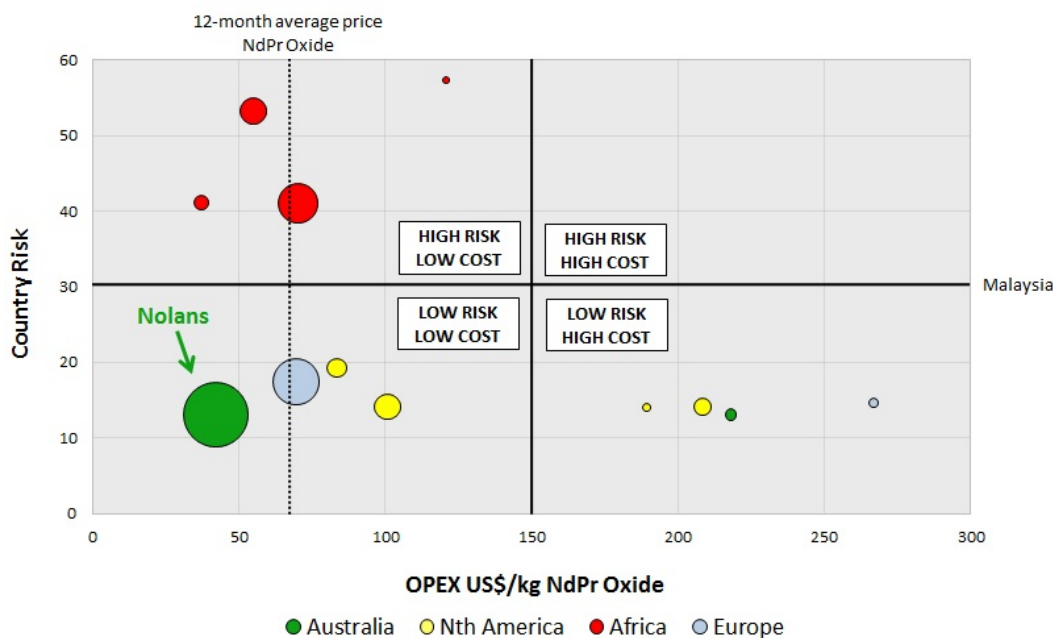
¹ Adamus Intelligence, IMCOA-Curtin University, Roskill, Shanghai Metals Market, Stormcrow

OPERATIONS REVIEW

Future availability of NdPr to meet the demand for permanent magnets is potentially at risk. Production control by Chinese authorities and maldistribution of critical REs in Chinese reserves may create supply instability and supply disruptions for NdPr in the future. Alternative long-term supply of NdPr from secure locations will be necessary to meet global demand and to reduce dependency on China.

Rare earth projects that are highly leveraged to NdPr are attractive and have high economic importance for use in permanent magnets. The Nolans Project is positioned to be one of the few new non-Chinese suppliers of NdPr this decade and NdPr is more strongly represented at Nolans than in any other RE project being advanced for development. The most recent operating cost estimate for Nolans reinforces the Company's position as one of the lowest cost producers on a per kilogram of NdPr oxide basis and, being located in Australia's Northern Territory, has very low country risk compared with challenging RE projects being advanced in developing countries.

Nolans represents a highly cost-competitive, low-risk future supply source of NdPr. Project size proportional to planned output of NdPr.



Source: OPEX and production data from RE company securities exchange disclosures. Country risk data from The Economist Intelligence Unit.

La OUTLOOK

The lanthanum ("La") market is expected to be driven by continued growth in fluid catalytic cracking ("FCC") catalyst demand as oil refiners shift to more challenging heavier oil feedstocks and demand grows for cleaner fuels in emerging economies. Global adoption of more stringent regulatory fuel standards is occurring and new refinery capacity is being installed in the Middle East and Asia which is expected to be among the fastest-growing regions for refinery catalyst demand. Steady growth of 4-6% per annum is expected in the future for La used in FCC catalysts².

OPERATIONS REVIEW

EXPLORATION

Aileron-Reynolds

The Company undertook sufficient exploration on its foundation Aileron-Reynolds land package to keep all tenements in good standing. In H1 FY2015, reconnaissance-level mapping and biogeochemical sampling was completed over a number of isolated conceptual RE targets on outliers of ELs 24741 and 28498. None of the surveys returned results that warranted additional work, and these areas are being rationalized on the anniversary dates of the respective tenements.

Yalyirambi

Ferrowest Limited (ASX: FWL) maintains its 51% interest in Arafura Iron Pty Ltd ("AIPL"), earning up to 60%. Arafura's iron rights on EL 24548 are held through AIPL.

Jervois

Rox Resources Limited (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.

Drilling by Rox in H1 FY2015 intersected massive copper sulphide mineralisation in a number of drill holes at the Bonya Mine prospect. Rox is planning further drilling in H1 FY2016 at the Bonya Mine prospect, and at a number of other prospective base and precious metal targets on EL 29701.

Mt Porter – Frances Creek

Ark Mines Limited (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). On completion of the first earn-in benchmark Ark may increase its interest by 30% to a total of 70%.

Drilling by Ark in H1 FY2015 extended the Golden Honcho gold horizon, and further drilling is planned for Q1 FY2016. A program of metallurgical testwork on ore from Mt Porter during FY2015 has enhanced the viability of that project, and recently Ark entered into a toll processing agreement with neighbouring operator Newmarket Gold.

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.

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

This Operations Review does not constitute an offer of securities in Arafura Resources, nor an invitation to apply for such securities. This Operations Review does not provide investment advice or financial product advice. You should obtain professional advice and carry out your own independent investigations and assessment of the information in this Operations Review (including any assumptions) before acting.

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.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

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 2015.

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
T. Grose
S. Lu⁽¹⁾
C. Ding⁽²⁾
G. Lockyer

Other Details

(1) Ms Lu resigned as Non-Executive Director of Arafura on the 17th of November 2014.

(2) Mr Ding was appointed as Non-Executive Director of Arafura on the 3rd of March 2015.

Principal activities

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

- (a) China based rare earth extraction test work programs;
- (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 \$4,208,137 (2014: \$6,881,137). The decrease in the adjusted loss is largely explained by a reduction in employee related expenditure as well as no impairment loss recognised in the 2015 financial year (2014: \$1,171,129). Arafura's Consolidated Statement of Cash Flows shows the Group made cash savings, with a particular focus on administrative type activities. As an example Arafura was able to decrease \$601,065 in 'payments to suppliers and employees' (2014: \$734,462 decrease).

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

Furthermore, Arafura received this financial year a Research and Development ("R&D") incentive rebate totalling \$3,431,746 (2014: \$4,060,814). Arafura's financial position is strengthened in the current financial year by the receipt of this rebate, ensuring that the Company has the capacity to continue investigating further optimisation of the project and new technologies, as promoted by the Australian Government. The rebate initiative by the Australian Tax Office will continue into the 2016 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) On the 2nd of July 2014, Arafura appointed Sheng Kang Ning (Shanghai) Mining Investment CO., LTD ("SKN"), a China-based mineral investment and services company, to assist with the management of its Chinese optimisation program and the completion of the Nolans Rare Earths Project definitive feasibility study ("DFS"). SKN is a 90% owned subsidiary of Shenghe Resources Holdings Co. Ltd ("Shenghe").
- (b) Arafura received a cash injection of \$3,431,746 on the 9th of June 2015 (2014: \$4,060,814) 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% in the 2015/16 financial year.
- (c) On the 3rd of June 2015, Arafura announced to the market the significant reduction in operating costs at the Nolans Rare Earths ("RE") Project following a review of the Company's optimisation programs that were undertaken in China and Australia in 2014 and 2015. Operating costs have further reduced by 7.4% to A\$14.51/kg of REO equivalent (US\$11.22/kg @ A\$1 = US\$0.773) at the commencement of nameplate production. Previously, operating costs were estimated at A\$15.67/kg (US\$14.06/kg @ A\$1 = US\$0.897) in the Nolans Development Report ("NDR"; ASX: ARU 02/09/14).
- (d) On the 10th of February 2015, Arafura announced that it appointed GHD to complete the Nolans Project Environmental Impact Statement ("EIS"). The target date for submission of the EIS report to the Northern Territory Government's Environmental Protection Authority is Q1 CY2016.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

Matters subsequent to the end of the financial year

No matters or circumstance has arisen since 30 June 2015 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. The Company is also progressing with an Environmental Impact Statement on the Nolans project for submission to the Northern Territory Government.

Environmental regulation

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

Greenhouse gas and energy data reporting requirements

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

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. Mr Kowalick 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.

First Appointed

19 December 2002.

Other current Directorships

SA Forestry Corporation.

NT Power and Water Corporation.

Former Directorships in the last 3 years

Syngas Limited.

Central Australian Phosphate Limited.

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*).

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

Information on Directors (cont)

Gavin Lockyer, B.Bus, CA. <i>Managing Director</i>

Experience and expertise

Gavin Lockyer 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.

Mr Lockyer joined Arafura in 2006 as Chief Financial Officer and Company Secretary after having served as Financial Controller with the Tethyan Copper Company Limited. Mr Lockyer 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 on 23rd of July 2013.

Mr Lockyer'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.

Other current Directorships

None.

Former Directorships in the last 3 years

None.

Special responsibilities

None.

Interests in shares and options

5,930,000 unlisted options in Arafura Resources Limited (*Indirect*).

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

Information on Directors (cont)

Christopher Stephen Tonkin BSc (Hons), BA (Econ & Pol), MBA <i>Non-Executive Director</i>
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Experience and Expertise

Chris Tonkin began his career as a metallurgist and environmental specialist and diversified 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 roles included Head of Project and Structured Finance and Head of Natural Resources, Project and Structured Finance. He has over 30 years' experience as a senior business executive with an extensive industry background in business generation, project and corporate finance, management and strategy development.

Mr Tonkin 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 in the resources, power and telecommunications sectors. He is also a past Managing Director of Arafura Resources and is currently an Executive Director of advisory companies Catalyst Capital Solutions Pty Ltd and Capital Advisory Services Pty Ltd.

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

First Appointed

1 January 2011.

Other current directorships

None.

Former directorships in the last 3 years

None.

Special responsibilities

Member of the Audit and Risk Committee.

Member of the Remuneration and Nomination Committee.

Interests in shares and options

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

Information on Directors (cont)

Terry Grose, B.Ec, MBA. <i>Non-Executive Director.</i>

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.

Mr Grose 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 of International Business Development.

In 1996 Mr Grose 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.

Mr Grose 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).

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

Information on Directors (cont)

Mr Cungen Ding <i>B.Geological Survey Non-Executive Director</i>

Experience and expertise

Cungen Ding based in Nanjing in the Peoples Republic of China, is the Chief Geologist and Chairman of Jiangsu Eastern China Non-ferrous Metals Investment Holding Co., Ltd a subsidiary of Eastern China Geological & Mining Bureau for Non-Ferrous Metals (ECE).

Mr Ding has over 30 years of mineral prospecting and exploration experience, and expertise in mineral resource surveys with extensive experience in titanium and iron. Mr Ding also has overseas experience having completed survey and exploration work in Asia and Africa.

First Appointed

03 March 2015.

Other current Directorships

Chairman of China Africa Resources PLC.

Former Directorships in the last 3 years

None.

Special responsibilities

None.

Interests in shares and options

None.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

Information on Directors (cont)

Shasha Lu, PhD, Masters Degree.
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Experience and Expertise

Shasha Lu is currently a Director and Deputy CEO 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 Director and Deputy CEO of SKN, Ms 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.

On the 17th of November 2014 Ms Lu elected to retire as a Non-Executive Director of Arafura Resources.

First Appointed

21 July 2009.

Other current Directorships

None.

Former Directorships in the last 3 years

Globe Metals & Mining Limited.

Special responsibilities

None.

Interests in shares and options

None.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

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 2015 were:

Director	Board meetings		Meetings of committees			
	Full meetings of Directors held	Full meetings of Directors attended	Audit & Risk Committee meetings held	Audit & Risk Committee meetings attended	Remuneration & Nomination Committee held	Remuneration & Nomination Committee attended
Terry Grose	12	12	4	4	3	3
Ian Kowalick	12	12	4	4	3	3
Chris Tonkin	12	12	3	3	2	2
Shasha Lu	4	4	1	1	1	1
Cungen Ding	4	4	-	-	-	-
Gavin Lockyer	12	12	-	-	-	-

As at 30 June 2015 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.
- Mr Tonkin is a member of both the Remuneration and Nomination Committee and Audit and Risk Committee.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

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 Terry Grose Shasha Lu ⁽¹⁾ Cungen Ding ⁽²⁾ Gavin Lockyer (Managing Director)

Other Key Management Personnel

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

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

(2) Mr Ding was appointed as a Non-Executive Director on the 3rd of March 2015.

(3) Mr Graham stepped down as GM Operations and Technology as of the 1st of September 2015.

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.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

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 2015 financial year, all compensation arrangements for Directors and the Group's Executives were determined at Board level after taking into account the competitive rates prevailing in the market place.

Remuneration levels of the Directors and the Group's Executives were set by reference to other similar resources and chemical companies with similar scale and risk profiles. They are set to attract and retain Executives capable of managing the Group's operations.

Remuneration of Non-Executive Directors were determined by the Board within the amount approved by shareholders. The Board undertakes an annual review of its performance. No bonuses are paid to Non-Executive Directors.

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

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 remuneration from the prior year and determined that there be no changes to the remuneration of Non-Executive Directors. The Chairman's fee is determined independently to the fees of Non-Executive Directors based on comparative roles in the external market. 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 2015	From 1 July 2015
Base Fees		
Chairman	\$135,000	\$135,000
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 2015.

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.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

Remuneration report (audited) - (cont)

Executive pay

The Executive pay and reward framework has four components which comprise the Executive's total remuneration:

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

Base pay and benefits

The base pay (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. 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 2015.

Managing Director Mr. Gavin Lockyer's contract remained unchanged for the 2015 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. The Committee considers market rates of salaries for levels across the Company, which have been based on industry data provided by a range of employment agencies.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

Remuneration report (audited) - (cont)

For the year ended 30 June 2015, there were no KPI's set for Executives or the Managing Director and no bonuses were received.

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 33 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.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

Remuneration report (audited) - (cont)

For the 2015 financial year, the key management personnel include the Directors of Arafura Resources Limited and those Executives that report directly to the Managing Director being:

- P Sherrington – *Chief Financial Officer and Company Secretary*
- R Brescianini – *General Manager Strategic Development and Exploration*
- N Graham – *General Manager of Operations and Technology*
- B Fowler – *General Manager of Northern Territory & Sustainability*

Voting and comments made at the company's 2014 Annual General Meeting

Arafura Resources Ltd received more than 98% of "for" votes on its remuneration report for the 2014 financial year.

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

Key management personnel compensation

	2015 \$	2014 \$
Short-term employee benefits	1,894,261	2,245,852
Post-employment benefits	201,857	203,869
Long-term benefits	206,641	140,500
Termination benefits	-	166,341
Share-based payments	40,887	207,256
	2,343,646	2,963,818

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

Remuneration report (audited) - (cont)

	Short-term benefits			Post-employment benefits	Long-term benefits		Share-based payments		
2015	Cash salary and fees	Bonus	Non-monetary benefits	Super-annuation	Long service leave	Termination benefits	Options	Total	Percent - consisting of options
Name	\$	\$	\$	\$	\$	\$	\$	\$	%
Non-Executive Directors									
I Kowalick	135,000	-	-	16,200	-	-	-	151,200	-
T Grose	70,000	-	-	8,400	-	-	-	78,400	-
S Lu	29,167	-	-	3,500	-	-	-	32,667	-
C Tonkin ⁽¹⁾	108,300	-	-	8,400	-	-	-	116,700	-
C Ding	26,133	-	-	-	-	-	-	26,133	-
Executive Directors									
G Lockyer	396,266	-	2,338	30,000	64,005	-	18,551	511,160	4%
Other key management personnel (Group)									
P Sherrington	311,100	-	2,338	30,000	38,892	-	5,584	387,914	1%
R Brescianini	266,100	-	2,338	35,000	41,454	-	5,584	350,476	2%
N Graham ⁽²⁾	295,743	-	2,338	35,357	26,567	-	5,584	365,589	2%
B Fowler	247,100	-	-	35,000	35,723	-	5,584	323,407	2%
Total	1,884,909	-	9,352	201,857	206,641	-	40,887	2,343,646	2%

(1) Mr. Tonkin incurred \$38,300 in consultancy work throughout the financial year.

(2) Mr Graham stepped down as GM Operations and Technology as of the 1st of September 2015.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

Remuneration report (audited) - (cont)

	Short-term benefits			Post-employment benefits	Long-term benefits		Share-based payments		
2014	Cash salary and fees	Bonus	Non-monetary benefits	Super-annuation	Long service leave	Termination benefits	Options	Total	Percent - consisting of options
Name	\$	\$	\$	\$	\$	\$	\$	\$	%
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.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

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 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 2015 financial year:

G Lockyer, *Managing Director*

- No term of agreement.
- Base salary inclusive of superannuation, for the year ended 30 June 2015 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 20th November 2014, 3,000,000 options were granted in accordance with Arafura's ESOP. Further details can be found at note 26.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to six months of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to six months of the base salary.

P Sherrington, *Chief Financial Officer and Company Secretary*

- No term of agreement.
- Base salary inclusive of superannuation, for the year ended 30 June 2015 of \$340,000. 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 30th of September 2014, 600,000 options were granted in accordance with Arafura's ESOP. Further details can be found at note 26.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to three months of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to three months of the base salary.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

Remuneration report (audited) - (cont)

R Brescianini, *General Manager Strategic Development and Exploration*

- No term of agreement.
- Base salary inclusive of superannuation, for the year ended 30 June 2015 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 30th of September 2014, 600,000 options were granted in accordance with Arafura's ESOP. Further details can be found at note 26.
- 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 Operations and Technology*

- No term of agreement.
- Base salary inclusive of superannuation for the year ended 30 June 2015 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 30th of September 2014, 600,000 options were granted in accordance with Arafura's ESOP. Further details can be found at note 26.
- 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.
- Mr Graham stepped down as General Manager of Operations and Technology on the 1st of September 2015.

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

- No term of agreement.
- Base salary inclusive of superannuation for the year ended 30 June 2015 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 30th of September, 600,000 options were granted in accordance with Arafura's ESOP. Further details can be found at note 26.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to three months of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to three months of the base salary.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

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
18-Jul-13	18-Jul-14	18-Jul-16	\$0.14	\$0.041	100%
30-Sep-14	30-Sep-15	30-Sep-18	\$0.105	\$0.018	0%
30-Sep-14	30-Sep-16	30-Sep-18	\$0.105	\$0.022	0%
30-Sep-14	30-Sep-17	30-Sep-18	\$0.105	\$0.025	0%
20-Nov-14	20-Nov-15	20-Nov-14	\$0.105	\$0.016	0%
20-Nov-14	20-Nov-16	21-Nov-14	\$0.105	\$0.017	0%
20-Nov-14	20-Nov-17	22-Nov-14	\$0.105	\$0.018	0%

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

The exercise price of the options issued during the 2015 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.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

Remuneration report (audited) - (cont)

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

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

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

Name	Number of options granted during the year	Value of options at grant date \$	Number of options vested during the year	Number of options lapsed during the year	Value of lapsed options \$
Directors of Arafura Resources Limited					
I J Kowalick	-	-	-	-	-
S Lu	-	-	-	1,000,000	170,300
T Grose	-	-	-	-	-
C Tonkin	-	-	-	750,000	127,725
C Ding	-	-	-	-	-
G Lockyer	3,000,000	51,000	2,500,000	200,000	54,960
Other key management personnel of the group					
P Sherrington	600,000	13,000	800,000	200,000	37,980
R Brescianini	600,000	13,000	800,000	200,000	54,960
N Graham	600,000	13,000	800,000	500,000	137,400
B Fowler	600,000	13,000	800,000	200,000	37,980

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

Remuneration report (audited) - (cont)

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 2015 are contained in note 26 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 2015 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 2015, is detailed below:

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

Remuneration report (audited) - (cont)

Name	Bonus		Options					
	Paid	Forfeited	Year granted	Vested	Forfeited	Financial years in which options may vest.	Maximum total value of grant yet to vest.	Number of Options Granted
	%	%		%	%	Year	\$	
I Kowalick	-	-	2015	-	-	-	-	-
	-	-	2014	-	-	-	-	-
S Lu	-	-	2015	-	100	-	-	-
	-	-	2014	-	33	-	-	-
C Tonkin	-	-	2015	-	100	-	-	-
	-	-	2014	-	-	-	-	-
T Grose	-	-	2015	-	-	-	-	-
	-	-	2014	-	-	-	-	-
C Ding	-	-	2015	-	-	-	-	-
G Lockyer	-	100	2015	7	3	2016	51,000	3,000,000
	-	100	2014	29	21	2015	5,055	2,500,000
P Sherrington	-	100	2015	21	11	2016	13,000	600,000
	-	100	2014	27	13	2015	1,618	800,000
R Brescianini	-	100	2015	20	10	2016	13,000	600,000
	-	100	2014	46	37	2015	1,618	800,000
N Graham	-	100	2015	25	21	2016	13,000	600,000
	-	100	2014	50	30	2015	1,618	800,000
B Fowler	-	100	2015	25	12.5	2016	13,000	600,000
	-	100	2014	47	33	2015	1,618	800,000

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

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 2015.

Other transactions with key management personnel

In the 2014 and 2015 financial year, there were no transactions with individuals at any time.

Movements in option interests of Key Management Personnel for 30 June 2015

2015	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)	-	-	-
S Lu	1,000,000	-	-	(1,000,000)	-	-	-
C Ding	-	-	-	-	-	-	-
G Lockyer	3,130,000	3,000,000	-	(200,000)	5,930,000	2,930,000	3,000,000
Key management personnel of the Group							
P Sherrington	1,300,000	600,000	-	(200,000)	1,700,000	1,100,000	600,000
R Brescianini	1,430,000	600,000	-	(200,000)	1,830,000	1,230,000	600,000
N Graham	1,730,000	600,000	-	(500,000)	1,830,000	1,230,000	600,000
B Fowler	1,000,000	600,000	-	(200,000)	1,400,000	800,000	600,000
Total	10,340,000	5,400,000	-	(3,050,000)	12,690,000	7,290,000	5,400,000

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

Remuneration report (audited) - (cont)

Movements in share interests of Key Management Personnel for 30 June 2015

2015	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
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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	-	-	-	-
C Ding	-	-	-	-
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
B Fowler	-	-	-	-

Total	1,129,588	-	-	1,129,588
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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.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2015

Proceedings on behalf of the company

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

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

Non-audit services

No non-audit services were provided by BDO in the 2015 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 19 of this financial report.

AUDITOR'S INDEPENDENCE DECLARATION

FOR THE YEAR ENDED 30 JUNE 2015

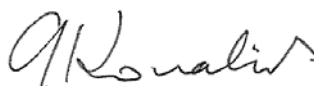
Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 44.

Signed in accordance with a resolution of the Directors.



G. Lockyer
Managing Director



I. Kowalick
Chairman

Perth, Western Australia
17 September 2015

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

As lead auditor of Arafura Resources Limited for the year ended 30 June 2015, 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.



Jarrad Prue
Director

BDO Audit (WA) Pty Ltd
Perth, 17 September 2015

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2015

Approach to Corporate Governance

Arafura Resources Limited ACN 080 933 455 (**Company**) has established a corporate governance framework, the key features of which are set out in this statement. In establishing its corporate governance framework, the Company has referred to the recommendations set out in the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations 3rd edition (**Principles & Recommendations**).

The Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Company's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. In compliance with the "if not, why not" reporting regime, where, after due consideration, the Company's corporate governance practices do not follow a recommendation, the Board has explained its reasons for not following the recommendation and disclosed what, if any, alternative practices the Company has adopted instead of those in the recommendation.

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

Charters

Board

Audit and Risk Committee

Nomination and Remuneration Committee

Policies and Procedures

Process for Performance Evaluations

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

Director and Senior Executive Induction Program

Diversity Policy (summary)

Code of Conduct (summary)

Policy on Continuous Disclosure (summary)

Compliance Procedures (summary)

Shareholder Communication and Investor Relations Policy

Securities Trading Policy

The Company reports below on whether it has followed each of the recommendations during the 2014/2015 financial year (**Reporting Period**). The information in this statement is current at 17 September 2015. This statement was approved by a resolution of the Board on 17 September 2015.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2015

Corporate Governance Statement - (cont)

Principle 1 – Lay solid foundations for management and oversight

Recommendation 1.1

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

Recommendation 1.2

The Company undertakes appropriate checks before appointing a person, or putting forward to shareholders a candidate for election as a director and provides shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.

The checks which are undertaken, and the information provided to shareholders are set out in the Company's *Policy and Procedure for the Selection and (Re)Appointment of Directors*.

Recommendation 1.3

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

Recommendation 1.4

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

Recommendation 1.5

The Company has a Diversity Policy, which outlines the Company's commitment to ensuring a diverse mix of skills and talent exists amongst its directors, officers and employees, to enhance Company performance. The Diversity Policy addresses equal opportunities in the hiring, training and career advancement of directors, officers and employees and also outlines the process by which the Board may set measurable objectives to achieve the aims of its Diversity Policy, with particular focus on gender diversity within the Company.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2015

Corporate Governance Statement - (cont)

The Diversity Policy does not include requirements for the Board to set measurable objectives for achieving gender diversity (or to assess annually both the objectives and the Company's progress in achieving them), but notes that the Board may do so.

For the Reporting Period, the Board decided not to set measurable objectives for achieving gender diversity. After consideration, the Board decided that the size and nature of the Company's operations meant that establishing meaningful objectives was not practical at this stage. The Board considers that it can monitor gender diversity without establishing objectives. The Board will reconsider the establishment of measurable objectives for achieving gender diversity as its circumstances change.

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

	Proportion of women
Whole organisation	5 out of 18 (28%)
Senior executive positions (excluding the Managing Director)	0 out of 4 (0%)
Board	0 out of 5 (0%)

Recommendation 1.6

The Chair has the overall responsibility for evaluation of the Board and, when deemed appropriate, Board committees and individual directors. The Nomination and Remuneration Committee is responsible for evaluating the Managing Director whilst the Chairman of the Audit and Risk Committee is responsible for evaluating the Chairman of the Company after having canvassed the views of the other directors.

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

During the Reporting Period each director, including the Managing Director, completed the questionnaire in accordance with process documented. A summary of results was tabled by the Company Secretary to the Chair and results discussed with the Board as a group. From the discussion between the Chair and the Board an action list of key areas of focus was agreed. The action list was tabled at a Board meeting at least twice during the Reporting Period to assess the extent to which the areas of focus have been addressed, and to consider the overall effectiveness of the meeting.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2015

Corporate Governance Statement - (cont)

The Nomination and Remuneration Committee also conducted its evaluation of the Managing Director during the Reporting Period. The evaluation consisted of performance and leadership competencies. It also considered such things as market sentiment and industry activity. KPI's are being considered for the 2015/16 Reporting Period and will be finalised in due course.

Recommendation 1.7

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

During the Reporting Period an evaluation process of the senior executives did commence, which consisted of a review of performance against corporate KPI's previously established and considered such things as market sentiment and industry activity. A formal review process was not undertaken however, individual feedback was provided. Individual KPI's were not established in the Reporting Period but will be considered for the 2015/16 Reporting Period and if considered appropriate, established in line with the Managing Director's KPI's, which as noted above will be finalised in due course.

Principle 2 – Structure the board to add value

Recommendation 2.1

The Board has established a Nomination and Remuneration Committee comprising Ian Kowalick (Chair), Terry Grose and Chris Tonkin. The Nomination and Remuneration Committee is structured in accordance with Recommendation 2.1.

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 26 of the Company's 2015 Annual Report.

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

Recommendation 2.2

A profile of each Director setting out their skills, experience, expertise and period of office is set out in the Directors' Report from page 20.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2015

Corporate Governance Statement - (cont)

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 skills 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.

Recommendation 2.3

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

The independent directors of the Company are Ian Kowalick, Terry Grose and Chris Tonkin (deemed independent since 20 May 2015).

The non-independent director of the Company is Cungen Ding, as he is a nominee director appointed by the Company's largest shareholder ECE Nolans Inv Co PL.

Mr Grose is independent as he is a non-executive director who is not a member of management and is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of his judgement.

Mr Kowalick has been a member of the Board for in excess of 10 years (since 19 December 2002). The Board has determined (in the absence of Mr Kowalick) that notwithstanding his length of service on the Board, he is independent for the reasons set out below:

- It was noted that whilst serving as a Director for an extended period Mr Kowalick had at no time closely aligned himself with the Company's executive team.
- It was agreed by all present that Mr Kowalick at all times has acted independently and has consistently demonstrated the ability to make decisions that are in the best interests of the Company.
- Mr Kowalick did not otherwise have any interest, position, association or relationship of the type set out in the Company's *Policy on Assessing the Independence of Directors*.

Since 20 May 2015, notwithstanding his previous executive role with the Company within the last 3 years, Mr Tonkin has been deemed to be an independent director for the reasons set out below:

- Mr Tonkin held the executive position in only a temporary capacity to assist the Company after the sudden departure of the previous CEO.
- The interim role performed by Mr Tonkin was not a full time position and the transition of Mr Lockyer to the role of Managing Director has now been completed.
- All Directors agreed Mr Tonkin has consistently demonstrated the ability to make decisions that are in the best interests of the Company at all times has acted independently.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2015

Corporate Governance Statement - (cont)

The length of service of each director is set out in the Directors' Report from page 20 of the Company's 2015 Annual Report.

Recommendation 2.4

The Board has a majority of directors who are independent.

Recommendation 2.5

The independent Chair of the Board is Ian Kowalick, who is not also the Company's Managing Director.

Recommendation 2.6

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

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

Principle 3 – Act ethically and responsibly

Recommendation 3.1

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

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2015

Corporate Governance Statement - (cont)

Principle 4 – Safeguard integrity in corporate reporting

Recommendation 4.1

The Board has established an Audit and Risk Committee. The members of the Audit and Risk Committee are Terry Grose (Chair), Ian Kowalick and Chris Tonkin. Each member of the Audit and Risk Committee is a non-executive director, and all members are independent. A profile of each Director setting out their skills, experience, expertise and period of office is set out in the Directors' Report on page 20 of the Company's 2015 Annual Report. The Audit and Risk Committee is structured in compliance with Recommendation 4.1 and Recommendation 7.1.

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

Details of director attendance at Audit and Risk Committee meetings during the Reporting Period are set out in a table in the Directors' Report on page 26 of the Company's 2015 Annual Report.

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

Recommendation 4.2

Before the Board approved the Company financial statements for the half year ended 31 December 2014 and the full-year ended 30 June 2015 and each of the quarters ending 30 September 2014, 31 December 2014, 31 March 2014 and 30 June 2014, it received from the Managing Director and the Chief Financial Officer a declaration that, in their opinion, the financial records of the Company for the relevant financial period have been properly maintained and that the financial statements for the relevant financial period comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company and the consolidated entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2015

Corporate Governance Statement - (cont)

Recommendation 4.3

Under section 250RA of the Corporations Act, the Company's auditor is required to attend the Company's annual general meeting at which the audit report is considered, and must arrange to be represented by a person who is a suitably qualified member of the audit team that conducted the audit and is in a position to answer questions about the audit.

Each year, the Company writes to the Company's auditor to inform them of the date of the Company's annual general meeting.

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

A representative of the Company's auditor, BDO attended the Company's annual general meeting held on 20 November 2014.

Principle 5 – Make timely and balanced disclosure

Recommendation 5.1

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

Principle 6 – Respect the rights of security holders

Recommendation 6.1

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

Recommendation 6.2

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

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2015

Corporate Governance Statement - (cont)

Recommendation 6.3

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

Recommendation 6.4

Shareholders are given the option to receive communications from, and send communications to, the Company and its share registry electronically. Upon becoming a shareholder, a 'Welcome Letter' is sent by the Company. Accompanying the 'Welcome Letter' is a 'Communication Preference Form' which once completed and returned, or completed on the Share Registry's website at www.linkmarketservices.com.au enables shareholders to elect to receive information from the Company and its share registry electronically.

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

Principle 7 – Recognise and manage risk

Recommendation 7.1

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

Recommendation 7.2

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

Recommendation 7.3

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

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2015

Corporate Governance Statement - (cont)

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

Recommendation 7.4

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

The report can be found at the website:

http://www.arulld.com/images/ARAFURA_Sustainability_Report_2014-15.pdf

Principle 8 – Remunerate fairly and responsibly

Recommendation 8.1

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

Recommendation 8.2

Details of remuneration, including the Company's policy on remuneration, are contained in the "Remuneration Report" which forms part of the Directors' Report and commences at page 27 of the Company's 2015 Annual Report. This disclosure includes a summary of the Company's policies regarding the deferral of performance based remuneration and the reduction, cancellation or clawback of the performance based remuneration in the event of serious misconduct or a material misstatement in the Company's financial statements.

Recommendation 8.3

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2015

		2015	2014
	Notes	\$	\$
Revenue from continuing operations	5	615,303	962,686
Non-capitalised portion of R&D tax incentive rebate	5	1,167,812	776,615
Other income	5	16,193	(206,195)
Employee benefits expense	6	(2,969,363)	(4,020,853)
Other expenses	6	(2,911,495)	(3,123,223)
Depreciation and amortisation	6	(118,797)	(94,066)
Finance costs	6	(7,790)	(4,972)
Impairment of assets	6	-	(1,171,129)
Loss before income tax		(4,208,137)	(6,881,137)
Income tax benefit	7	-	-
Net (Loss) after income tax for the year		(4,208,137)	(6,881,137)
Total comprehensive (loss) for the year attributable to owners of Arafura Resources Limited		(4,208,137)	(6,881,137)
		Cents	Cents
Loss per share attributable to owners of Arafura Resources Limited			
Basic loss per share	21	(0.9)	(1.6)
Diluted loss per share	21	(0.9)	(1.6)

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

FOR THE YEAR ENDED 30 JUNE 2015

	Notes	2015 \$	2014 \$
CURRENT ASSETS			
Cash and cash equivalents	8	16,615,482	24,547,030
Trade and other receivables	9	463,830	433,350
Total Current Assets		17,079,312	24,980,380
NON-CURRENT ASSETS			
Property, plant and equipment	10	185,317	194,104
Deferred exploration, evaluation and development costs	11	114,923,897	111,602,476
Total Non-Current Assets		115,109,214	111,796,580
TOTAL ASSETS		132,188,526	136,776,960
CURRENT LIABILITIES			
Trade and other payables	12	1,080,887	1,618,877
Provisions	13	408,620	468,439
Total Current Liabilities		1,489,507	2,087,316
NON-CURRENT LIABILITIES			
Provisions	13	313,857	175,778
Total Non-Current Liabilities		313,857	175,778
TOTAL LIABILITIES		1,803,364	2,263,094
NET ASSETS		130,385,162	134,513,866
EQUITY			
Contributed equity	14	194,128,196	194,128,196
Reserves	15	11,595,349	11,515,916
Accumulated losses	16	(75,338,383)	(71,130,246)
TOTAL EQUITY		130,385,162	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 YEAR ENDED 30 JUNE 2015

Consolidated	Notes	Contributed equity \$	Equity reserve \$	Accumulated losses \$	Total equity \$
Balance at 30 June 2013		194,128,196	11,182,015	(64,249,109)	141,061,102
Loss for the 2014 financial year	16	-	-	(6,881,137)	(6,881,137)
Other comprehensive income		-	-	-	-
Total Comprehensive Loss 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		-	-	-	-
Employee share options – value of employee services	15	-	333,901	-	333,901
Balance at 30 June 2014		194,128,196	11,515,916	(71,130,246)	134,513,866
Loss for the 2015 financial year	16	-	-	(4,208,137)	(4,208,137)
Other comprehensive income		-	-	-	-
Total Comprehensive Loss for the year		-	-	(4,208,137)	(4,208,137)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs and tax		-	-	-	-
Employee share options – value of employee services	15	-	79,433	-	79,433
Balance at 30 June 2015		194,128,196	11,595,349	(75,338,383)	130,385,162

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 2015

	Notes	2015 \$	2014 \$
Cash flows from operating activities			
Payments to suppliers and employees		(6,023,940)	(6,625,005)
Interest received		681,654	1,017,834
R&D Incentive rebate - non capitalised portion		1,167,812	776,615
Interest paid		(7,790)	(4,970)
Other		269,747	-
Net cash (outflow) from operating activities	17	(3,912,517)	(4,835,526)
Cash flows from investing activities			
Payment for property, plant and equipment		(110,010)	(32,434)
Payments for exploration and evaluation		(6,189,149)	(6,055,247)
R&D Incentive rebate - capitalised portion		2,263,935	3,284,199
Net cash (outflow) from investing activities		(4,035,224)	(2,803,482)
Cash flows from financing activities			
Repayments of finance lease		-	(16,031)
Net cash inflow from financing activities		-	(16,031)
Net (decrease) in cash and cash equivalents		(7,947,741)	(7,655,039)
Cash at the beginning of the financial year		24,547,030	32,183,321
Effects of exchange rate changes on cash and cash equivalents		16,193	18,748
Cash and cash equivalents at the end of the financial year	8	16,615,482	24,547,030

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 2015

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 1: Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Arafura Resources Limited and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Interpretations and the *Corporations Act 2001*. Arafura Resources Limited is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRS

The consolidated financial statements of the Arafura Resources Limited Group also comply with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Early adoption of standards

The Group has not adopted any pronouncements to the annual reporting period beginning 1 July 2014.

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 2015 and the results of all controlled entities for the year then ended. Arafura Resources Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 1: Summary of significant accounting policies (cont)

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.

Joint Operations

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

Joint Ventures

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

(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 joint ventures are recognised as a reduction in the carrying amount of the investment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 1: Summary of significant accounting policies (cont)

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 not result in a loss of control as transactions 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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 1: Summary of significant accounting policies (cont)

The amount of benefit brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Arafura Resources Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated Group under the Tax Consolidation Regime. Arafura Resources Limited is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated Group. The entities in the tax 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 1: Summary of significant accounting policies (cont)

(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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 1: Summary of significant accounting policies (cont)

(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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 1: Summary of significant accounting policies (cont)

(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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 1: Summary of significant accounting policies (cont)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 1: Summary of significant accounting policies (cont)

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

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 26.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 1: Summary of significant accounting policies (cont)

The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date using the Binomial option pricing model.

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

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

(q) Provisions

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

(r) Revenue recognition

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 1: Summary of significant accounting policies (cont)

(t) Contributed equity

Ordinary shares are classified as equity.

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

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

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

(u) Segment reporting

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

(v) Share-based Payments

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 1: Summary of significant accounting policies (cont)

(w) Foreign currency translation

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

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

(x) 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 2015 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 1: Summary of significant accounting policies (cont)

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 2: Financial risk management

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

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

The Group holds the following financial instruments:

	2015 \$	2014 \$
Financial assets		
Cash and cash equivalents	16,615,482	24,547,030
Trade and other receivables	463,830	433,350
	17,079,312	24,980,380
Financial liabilities		
Trade creditors	522,535	468,320
Trade and other accruals	540,724	1,009,944
PAYG and payroll tax liabilities	17,628	140,613
Employee benefits	226,120	202,539
Current and Non-current borrowings	-	-
	1,307,007	1,821,416

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 2: Financial risk management (cont)

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 an immaterial foreign exchange risk, being the value of a USD bank balance which is subject to movements in the AUD/USD foreign exchange markets. The USD account has been established to meet overseas payments denominated in USD. 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

	2015 USD	2014 USD
Cash at bank	191,771	170,687
Trade Payables	-	-

(ii) Group sensitivity

Based on the financial instruments held at 30 June 2015, 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 \$24,970 or an increased loss in reported Group post tax losses of \$22,700.

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 2015, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 2: Financial risk management (cont)

(v) Group sensitivity

At 30 June 2015, 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 \$135,552 lower/(\$163,183 higher) (2014 – change of 70/100 bps: \$171,821 lower/(\$242,930 higher). This would be the result from higher/lower interest income from cash and cash equivalents.

(b) Credit risk

The Group has no significant concentrations of credit risk.

The credit quality of financial assets that are neither past due or impaired can be assessed by reference to external credit ratings:

2015	2014
\$	\$

Cash at bank and short-term bank deposits

Standard & Poor's rating AA-

16,615,482	24,547,030
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(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 2: Financial risk management (cont)

Group – At 30 June 2015	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	1,193,947	113,060	-	-	-	1,307,007	1,307,007
Fixed rate	-	-	-	-	-	-	-
Total non-derivatives	1,193,947	113,060	-	-	-	1,307,007	1,307,007

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

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 3: Critical accounting estimates and judgments (cont)

(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 26.

(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 2014/15 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 2015 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 2014 and 2015 financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

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 2015 is as follows:

CONSOLIDATED		Project evaluation	Exploration	Corporate	Total
2015					
Segment revenue		2,263,935	-	1,783,115	4,047,050
Segment expenditure		(5,287,574)	(297,782)	(5,801,426)	(11,386,782)
		(3,023,639)	(297,782)	(4,018,311)	(7,339,732)
Adjusted EBITDA		-	-	(4,018,311)	(4,018,311)
Capitalised expenditure		(3,023,639)	(297,782)	-	(3,321,421)
		(3,023,639)	(297,782)	(4,018,311)	(7,339,732)
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)
		(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)
Total segment assets					
	2015	100,928,267	13,995,629	17,264,630	132,188,526
	2014	97,904,628	13,697,848	25,174,484	136,776,960
Total segment liabilities					
	2015	598,123	24,582	1,180,658	1,803,363
	2014	1,252,967	33,295	976,831	2,263,093

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 4: Segment information (cont)

	2015	2014
	\$	\$
Adjusted EBITDA	(4,018,311)	(5,070,874)
Finance Costs	(7,790)	(4,972)
Depreciation & amortisation	(118,797)	(94,066)
Share option expense	(79,432)	(333,901)
Income accrued from Demonstration Plant reimbursement	-	(224,943)
Impairment on assets	-	(1,171,129)
Unrealised exchange rate (loss)/gain	16,193	18,748
Loss before income tax	(4,208,137)	(6,881,137)

Note 5: Revenue

	2015	2014
	\$	\$
Revenue from continuing operations		
<i>Other revenue</i>		
Interest received	615,303	962,686
	615,303	962,686
Other Income		
Foreign exchange gain/(loss)	16,193	18,748
Non-capitalised portion of R&D Tax Incentive rebate	1,167,812	776,615
Other	-	(224,943)
	1,184,005	570,420
	1,799,308	1,533,106

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 6: Expenses

2015	2014
\$	\$

(a) Expenses

Depreciation

Depreciation – plant & equipment	45,837	64,442
Depreciation – motor vehicles	-	8,895
Depreciation – leasehold improvements	72,960	20,729
Total depreciation	118,797	94,066

Finance costs

Interest expense	7,790	4,972
Total finance costs	7,790	4,972

Other expenses

Accounting and other professional fees	126,022	121,502
Audit fees	57,280	68,328
Consultants fees	945,302	881,470
Employee benefits expense	2,889,930	3,686,952
Insurance	80,500	103,099
Legal fees	224,700	249,247
Share-based employee benefits	79,433	333,901
Share registry and stock listing fees	76,522	75,663
Other expenses	1,401,169	1,623,914
Total other expenses	5,880,858	7,144,076

Impairment of assets

Capitalised exploration expenditure ⁽¹⁾	-	1,243,013
Capitalised EIS Costs - Whyalla	-	(71,884)
Total impairment of assets	-	1,171,129

⁽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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 7: Income tax

2015	2014
\$	\$

(a) Income tax expense

Current tax	-	-
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(b) Operating loss before income tax expense

(4,208,137)	(6,881,137)
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Tax at the Australian tax rate of 30% (2014: 30%)	(1,262,441)	(2,064,341)
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Tax effect of amounts which are not deductible (taxable) in calculating taxable income:

• Entertainment	6,072	5,976
• Share-based payments	23,830	100,170
• Sundry items not deductible (assessable)	(354,069)	(237,174)
• Deferred tax assets relating to tax losses and temporary differences not recognised	6,032,156	3,817,161

Temporary differences not recognised	(4,445,548)	(1,621,792)
Income tax benefit	-	-

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

<i>Deferred tax assets</i>		
Tax losses	51,620,475	47,751,824
Other temporary differences	424,900	933,854
<i>Deferred tax liabilities</i>		
Other temporary differences	(34,477,169)	(33,480,743)
Net deferred tax assets	17,568,206	15,204,935

The franking account balance at year end was \$nil (2014: \$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 2015 rebate claim for Research and Development (R&D) and as such has not recognised any amount in the financial statements for the 30 June 2015 period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 8: Current assets – Cash and cash equivalents

2015	2014
\$	\$

Cash at bank and in hand	2,389,656	2,048,275
Bank deposits ⁽¹⁾	14,225,826	22,498,755
	16,615,482	24,547,030

(1) All bank deposits mature within three months of 30 June 2015

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

Reconciliation to cash at the end of the year

Balances as above	16,615,482	24,547,030
Balances as per statements of cash flows	16,615,482	24,547,030

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 9: Current assets – Trade and other receivables

	2015 \$	2014 \$
Sundry debtors	39,704	111,555
Security bonds	256,307	161,053
Goods & services tax paid	94,546	46,018
Other receivables	73,273	114,724
	463,830	433,350

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

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

	Office furniture and fittings	Office and computer equipment	Plant and equipment	Motor vehicles	Land, Buildings and leasehold additions	Total
Consolidated	\$	\$	\$	\$	\$	\$
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	-	-	-	32,432
Disposals	-	-	-	-	-	-
Impairments	-	-	-	-	-	-
Transfers between classes	-	-	-	-	-	-
Depreciation charge	(10,137)	(46,995)	(7,310)	(8,895)	(20,729)	(94,068)
Depreciation charge capitalised	-	-	-	-	-	-
Closing book amount	37,771	34,234	14,874	-	107,225	194,100
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
Year Ended 30 June 2014						
Opening book amount	37,771	34,234	14,874	-	107,225	194,104
Additions	4,734	29,387	-	-	75,889	110,010
Disposals	-	-	-	-	-	-
Impairments	-	-	-	-	-	-
Transfers between classes	-	-	-	-	-	-
Depreciation charge	(20,165)	(19,058)	(6,614)	-	(72,960)	(118,797)
Depreciation charge capitalised	-	-	-	-	-	-
Closing book amount	22,340	44,563	8,260	-	110,154	185,317
At 30 June 2015						
Cost or fair value	82,302	774,265	99,916	203,308	169,488	1,329,279
Accumulated depreciation	(59,962)	(729,702)	(91,656)	(203,308)	(59,334)	(1,143,962)
Net book amount	22,340	44,563	8,260	-	110,154	185,317

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

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

2015	2014
\$	\$

Exploration, evaluation and development costs carried forward

Balance at beginning of year	111,602,476	111,037,558
Capitalised exploration expenditure	297,782	521,318
Capitalised evaluation expenditure ^(a)	5,287,574	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	(2,263,935)	(3,284,199)
Balance at end of year	114,923,897	111,602,476

- (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 12: Current liabilities – Trade and other payables

2015	2014
\$	\$

Current

Trade creditors ^(a)	522,535	468,320
Trade and other accruals	540,724	1,009,944
PAYG and payroll tax liabilities	17,628	140,613
	1,080,887	1,618,877

Information about the Group's exposure to foreign exchange risk is provided in note 2. Carrying amounts equal fair values due to the short term nature.

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

Note 13: Current and non-current liabilities - Provisions

2015	2014
\$	\$

Current

Provision for annual leave ^(a)	226,120	202,539
Provision – Demonstration plant and liquids ^(b)	-	265,900
Provision for lease incentive ^(c)	182,500	-
	408,620	468,439

Non-current

Provision for long service leave	237,815	175,778
Provision for lease incentive	76,042	-
	313,857	175,778

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 13: 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.
- (c) Amortised from December 2014 until November 2016.

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

2015	2014
\$	\$

Leave obligations expected to be settled after 12 months

101,754	91,142
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 14: Equity – Contributed equity

2015 Shares	2014 Shares	2015 \$	2014 \$
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Share capital

Ordinary shares

- Fully paid

441,270,644	441,270,644	194,128,196	194,128,196
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(a) Movements in ordinary share capital

Movements in ordinary share capital over the past two years are as follows:

Date	Details	Number of shares	Issue Price	\$
30-Jun-13	Balance	441,270,644		194,128,196
	Nil	-		-
30-Jun-14	Balance	441,270,644		194,128,196
	Nil	-		-
30-Jun-15	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 14: Equity – Contributed equity (cont)

The decrease in the 2015 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	2015 \$	2014 \$
Total payables	12 & 13	1,489,507	2,087,316
Less: cash and cash equivalents	8	(16,615,482)	(24,547,030)
Net debt		(15,125,975)	(22,459,714)
Total equity		130,385,162	134,513,866
Total capital		111,706,212	111,706,212
Gearing Ratio		(14%)	(20%)

Note 15: Equity – Reserves

	2015 \$	2014 \$
Reserves		
Share-based payments reserve	11,595,349	11,515,916
	11,595,349	11,515,916
Movements		
<i>Share-based payments reserve</i>		
Balance 1 July 2014	11,515,916	11,182,015
Option expense	79,433	333,901
Balance 30 June 2015	11,595,349	11,515,916

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 15: Equity – Contributed equity (cont)

(a) Nature and purpose of reserves

(i) *Share-based payments reserve*

The share-based payments reserve is used to recognise the fair value of options issued to employees and Directors but not exercised.

Note 16: Equity – Accumulated losses

	2015 \$	2014 \$
Balance 1 July 2014	(71,130,246)	(64,249,109)
Net loss for the year	(4,208,137)	(6,881,137)
Balance 30 June 2015	(75,338,383)	(71,130,246)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 17: Statement of cash flows reconciliation

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

	2015 \$	2014 \$
Net (loss)	(4,208,137)	(6,881,137)
Depreciation and amortisation	118,797	94,064
Impairment on assets	-	1,171,129
Other Income	-	224,943
Unrealised FX loss/(gain)	(16,193)	(18,748)
Share-based employee benefits	79,433	333,901
(Increase)/decrease in trade & other receivables	(30,481)	91,685
Increase/(decrease) in trade & other payables	(200,096)	66,366
Increase/(decrease) in other provisions	344,160	82,268
Net cash (outflow) from operating activities	(3,912,517)	(4,835,528)

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

Note 18: Key management personnel disclosures

(a) Key management personnel compensation

	2015 \$	2014 \$
Short-term employee benefits	1,894,261	2,245,852
Post-employment benefits	201,857	203,869
Long-term benefits	206,641	140,500
Termination benefits	-	166,341
Share-based payments	40,887	207,256
	2,343,646	2,963,818

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 18: Equity – Contributed equity (cont)

Detailed remuneration disclosures are provided in sections A-E of the remuneration report on pages 28 to 42.

(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) *Loans to key management personnel*
In the 2014 and 2015 financial year, there were no loans to individuals at any time.

(iii) *Other transactions with key management personnel*
In the 2014 and 2015 financial year, there were no transactions with individuals at any time.

Note 19: Remuneration of auditors

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

1. Audit services

BDO Audit (WA) Pty Ltd

Audit and review of financial reports

Total remuneration for audit services

2015	2014
\$	\$
57,280	68,328
57,280	68,328

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 20: Commitments and contingencies

(a) Mining tenement commitments

	2015 \$	2014 \$
Within one year	411,656	327,540
Later than one year but not later than five years	2,404,878	1,913,472
Later than five years	-	-
	2,816,534	2,241,012

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) Capital commitments

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

(c) Lease commitments:

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

	2015 \$	2014 \$
Within one year	253,621	325,545
Later than one year but not later than five years	121,527	375,148
Later than five years	-	-
	375,148	700,693

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 20: Commitments and contingencies (cont)

(d) Contingencies

No contingent liabilities exist at reporting date.

Note 21: Earnings per share

	2015 Cents	2014 Cents
(a) Basic loss per share		
Basic loss per share (cents per share)	(0.9)	(1.6)
(b) Diluted loss per share		
Diluted loss per share (cents per share)	(0.9)	(1.6)

	2015 \$	2014 \$
Net (loss)	(4,208,137)	(6,881,137)
Earnings/(loss) used to calculate basic earnings per share	(4,208,137)	(6,881,137)
Earnings/(loss) used to calculate diluted earnings per share	(4,208,137)	(6,881,137)

	2015 Number of shares	2014 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	441,270,644	441,270,644
Weighted average number of ordinary shares used in calculating diluted earnings per share	441,270,644	441,270,644
Weighted average number of ordinary shares from option conversions which are dilutive and potential ordinary shares that are not used in calculation of diluted earnings per share	-	-

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 22: Related party transactions

(a) Parent entity

The parent entity within the Group is Arafura Resources Limited. The ultimate Australian parent entity is Arafura Resources Limited which at 30 June 2015 owns 100% of the issued ordinary shares of Arafura Rare Earths Pty Ltd, Arafura Rare Earths Processing Pty Ltd and Arafura Land Holdings Pty Ltd and 49% 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 2015 owns 100% of the issued ordinary shares of Arafura Rare Earths Pty Ltd, Arafura Rare Earths Processing Pty Ltd, Arafura Land Holdings Pty Ltd and 49% of the issued capital in Arafura Iron Pty Ltd.

(b) Subsidiaries

Interests in subsidiaries are set out in note 23.

(c) Key management personnel

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

(d) Transactions with related parties

Mr. Tonkin performed 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 2015 financial year, Mr. Tonkin incurred \$38,300 beyond and above his salary as an Executive and Non-Executive Director. There were no outstanding payments due to Catalyst Capital Solutions Pty Ltd at 30 June 2015.

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 2015, Arafura has paid a total of AUD \$496,261 to this entity at rates agreed to by the Board on an "arms length" basis and on normal commercial terms, consistent with the industry.

(e) Outstanding balances arising from sale/purchases of goods and services

An amount of AUD \$36,201 was outstanding to SKN at 30 June 2015. There were no other outstanding balances at the end of the reporting period in relation to transactions with related parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 22: 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 23: Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policies described in note 1(c).

Name of entity	Country of incorporation	Class of share	Equity holding	
			2015 %	2014 %
Arafura Rare Earths Pty Ltd	Australia	Ordinary	100	100
Arafura Rare Earths Processing Pty Ltd*	Australia	Ordinary	100	100
Arafura Iron Pty Ltd	Australia	Ordinary	49	75
Arafura Land Holdings Pty Ltd	Australia	Ordinary	100	100

Note 24: 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 30th of October 2014, 16th of December 2014 and the 20th of August 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 24: Interests in possible Joint Ventures/Operations (cont)

At 30 June 2015, Ferrowest has earned a 51% interest in Arafura Iron Pty Ltd (ASX Announcement 30/10/14). Rox Resources Ltd also earned a 51% interest in the Bonya Copper project (ASX Announcement 16/12/14) no other 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.

A listing of Arafura's tenements held at 30 June 2015, including the rights held/relinquished can be found on the last page of the financial report.

Note 25: Events occurring after the reporting date

No matter or circumstance has arisen since 30 June 2015 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 26: Share-based payments

Employee option plan

The establishment of the Arafura Resources Limited Employee Share Option Plan (ESOP) was approved by shareholders at the 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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 26: 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 – 2015

15-Jul-11	16-Jul-14	\$0.960	900,000	-	-	(900,000)	-	-
15-Nov-11	31-Dec-14	\$0.810	600,000	-	-	(600,000)	-	-
25-Nov-11	24-Nov-14	\$0.700	1,750,000	-	-	(1,750,000)	-	-
10-Jan-13	31-Dec-15	\$0.230	1,878,000	-	-	-	1,878,000	1,878,000
18-Jul-13	18-Jul-16	\$0.140	6,750,000	-	-	(100,000)	6,650,000	6,650,000
30-Sep-14	30-Sep-18	\$0.105	-	5,190,000	-	(345,000)	4,845,000	-
20-Nov-14	20-Nov-18	\$0.105	-	3,000,000	-	-	3,000,000	-

Total			11,878,000	8,190,000	-	(3,695,000)	16,373,000	8,528,000
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Weighted average exercise price \$0.33 \$0.11 - \$0.71 \$0.13 \$0.16

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	-	(5,580,000)	11,878,000	5,128,000
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Weighted average exercise price \$0.73 \$0.14 - \$0.77 \$0.33 \$0.59

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 26: Share-based payments (cont)

The weighted average remaining contractual life of the share options outstanding at the end of the period was 2.07 years (2014: 1.49 years).

Fair value of options granted

Key Management Personnel received an aggregate 5,400,000 options out of a total 8,190,000 for the 2015 financial year exercisable at \$0.105. Refer to the remuneration report beginning page 27 to determine the fair value expense of options granted during the period ending 30 June 2015.

Arafura uses the "Binomial Model" to value its options. The model inputs for options granted during the year ended 30 June 2015 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
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\$0.105	30-Sep-14	30-Sep-18	\$0.064	67.57%	n/a	2.67%
\$0.105	30-Sep-14	30-Sep-18	\$0.064	69.78%	n/a	2.73%
\$0.105	30-Sep-14	30-Sep-18	\$0.064	70.55%	n/a	2.79%
\$0.105	20-Nov-14	20-Nov-18	\$0.052	70.08%	n/a	2.59%
\$0.105	20-Nov-14	20-Nov-18	\$0.052	69.86%	n/a	2.62%
\$0.105	20-Nov-14	20-Nov-18	\$0.052	69.53%	n/a	2.64%

(b) *Employee share scheme*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 26: Share-based payments (cont)

(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:

	2015 \$	2014 \$
Options issued under the executive & employee option plan	79,433	333,901
	79,433	333,901

Note 27: Parent entity financial information

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

	2015 \$	2014 \$
<u>Arafura Resources Ltd (Parent)</u>		
Statement of Financial Position		
Current assets	17,078,282	24,979,350
Total assets	132,188,526	136,776,960
Current Liabilities	1,489,507	2,087,316
Total Liabilities	1,803,363	2,263,093
<i>Shareholders Equity</i>		
Issued Capital	194,128,196	194,128,196
Reserves		
Option Reserve	11,595,349	11,515,916
Retained Earnings	(75,338,382)	(71,130,245)
(Loss) for the year	(4,208,137)	(6,881,137)
Total comprehensive Loss	(4,208,137)	(6,881,137)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

Note 27: Parent entity financial information (cont)

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 20 for full disclosure of these items.

DIRECTORS' DECLARATION

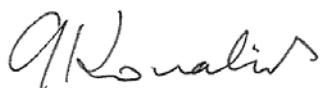
FOR THE YEAR ENDED 30 JUNE 2015

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 2015 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 27 to 42 of the Directors' report (as part of the audited Remuneration Report), for the year ended 30 June 2015 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 2015



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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 2015, 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(a), 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 2015 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(a).

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2015. 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 2015 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

Jarrad Prue

Director

Perth, 17 September 2015

SHAREHOLDER INFORMATION

OF ARAFURA RESOURCES LTD

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

1. Statement of issued capital at 31 August 2015:

(a) Distribution of fully paid ordinary shareholders

Size of holding	Number of shareholders	Number of shares
1 – 1000	1,076	547,386
1,001 – 5,000	2,084	6,249,378
5,001 – 10,000	1,301	10,682,266
10,001 – 100,000	2,353	78,770,845
100,001 – and over	359	345,020,769
	7,173	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 2015, there existed 4,467 shareholders who held less than a marketable parcel of shares.

2. Substantial shareholders at 31 August 2015 as per their notices:

Name	Ordinary shares %
ECE Nolans Inv CO PL	24.86%
JP Morgan Nom Aust Ltd	23.15%

3. Quotation

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

SHAREHOLDER INFORMATION

OF ARAFURA RESOURCES LTD

As at 31 August 2015, the twenty largest shareholders held 260,940,935 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	102,151,885	23.15
3	Citicorp Nom PL	12,540,980	2.84
4	HSBC Custody Nom Aust Ltd	6,661,541	1.51
5	National Nom Ltd	3,875,976	0.88
6	Lee Jin Koo	2,975,249	0.67
7	Zhigang Wang	2,420,078	0.55
8	Yu Dachang	2,067,507	0.47
9	BNP Paribas Nom PL	1,942,031	0.44
10	Pangea Trade (Aus) Pty Ltd	1,659,680	0.38
11	Leach Julian Paul	1,589,568	0.36
12	Itta Developments Pty Ltd	1,500,000	0.34
13	David John Harrison & Jan Maree Harrison	1,470,000	0.33
14	Gule Inv Pty Ltd	1,431,125	0.32
15	BNP Paribas Nominees Pty Ltd	1,413,634	0.32
16	National Nominees Ltd	1,214,987	0.28
17	Jing Wang	1,197,838	0.27
18	Jiesheng Gu	1,144,000	0.26
19	Best Friend Entps Pty Ltd	1,000,000	0.23
19	Kamdia Pty Ltd	1,000,000	0.23
19	Dyer David Alan + A M	1,000,000	0.23
20	Peter Moltoni & Susan Moltoni	985,023	0.22
		260,940,935	

SHAREHOLDER INFORMATION

OF ARAFURA RESOURCES LTD

The Group holds the following interests as indicated below as at 30 June 2015:

Tenement reference	Project	Holder	Nature of interest (note (2))	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
ML 30702				100%	100%	Application Lodged
ML 30703				100%	100%	Application Lodged
ML 30704				100%	100%	Application Lodged
EMEL 30510			Extractive Mineral Exploration Licence	100%	100%	
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%	
EL 24548	Aileron–Reynolds, NT	Arafura Resources Ltd	Exploration Licence	100%	100%	Arafura Iron Pty Ltd (AIPL) shareholders are Arafura 49% and Ferrowest Ltd (FWL) 51%. FWL has a right to acquire up to 60% of AIPL
			Non-iron rights	100%	100%	
		Arafura Iron Pty Ltd	Iron rights	100%	100%	
EL 29701	Jervois, NT	Arafura Resources Ltd	Exploration Licence	100%		Rox Resources Ltd (RXL) has acquired 51% of the base and precious metal rights. RXL has a right to acquire up to 70% of the base and precious metals rights

SHAREHOLDER INFORMATION

OF ARAFURA RESOURCES LTD

Tenement reference	Project	Holder	Nature of interest (note (2))	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	Frances Creek, NT	Territory Resources Ltd	Gold Rights	100%	100%	Ark Mines Ltd (AHK) has a right to acquire up to 70% of the gold rights Applications Lodged for ML 27226 & ML 27230 Ark Mines Ltd (AHK) has a right to acquire up to 70% of the gold rights
ML 24727			Gold Rights	100%	100%	
ML 27228			Gold Rights	100%	100%	
ML 25087			Gold Rights	100%	100%	
ML 25088			Gold Rights	100%	100%	
ML 25529			Gold Rights	100%	100%	
ML 27225			Gold Rights	100%	100%	
ML 27226			Gold Rights	100%	100%	
ML 27230			Gold Rights	100%	100%	
ML 27227 ML 27229 ML 29930 MA 389			Gold Rights Gold Rights Gold Rights Gold Rights	100% 100% 100% 100%	100% 100% 100% 100%	
ELR 116 ML 23839 EL 23237	Mt Porter, NT	Arafura Resources Ltd	Exploration Licence in Retention	100%	100%	Ark Mines Ltd (AHK) 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
ML 23839			Mineral Lease	100%	100%	
EL 23237			Exploration Licence	100%	100%	