



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

Arafura Resources Limited

ABN 22 080 933 455

Annual Report

30 June 2013

**Registered Office and Principal Place of Business**

**Level 5  
16 St Georges Terrace  
Perth  
Western Australia  
Australia  
6000**

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# CORPORATE DIRECTORY

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## **Directors**

Ian Kowalick  
(Chairman and Non-Executive Director)

Gavin Lockyer  
(Managing Director and Chief Executive Officer)

Chris Tonkin  
(Non-Executive Director)

Shasha Lu  
(Non-Executive Director)

Terry Grose  
(Non-Executive Director)

## **Company Secretary**

Peter Sherrington

## **Annual General Meeting to be held at**

Duxton Hotel, (Room: Duxton 3)  
1 St George's Tce, Perth,  
Western Australia

## **Time**

10.00am (WST)

## **Date**

Friday, 22 November 2013

## **Principal registered office in Australia**

Level 5, 16 St Georges Terrace  
Perth  
Western Australia 6000

## **Share registry**

Security Transfer Registrars Pty Ltd  
770 Canning Highway  
Applecross  
Western Australia 6153

## **Auditor**

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

## **Solicitors**

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

# CORPORATE DIRECTORY

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**Bankers**

Westpac Banking Corporation  
109 St Georges Terrace  
Perth  
Western Australia 6000

**Stock exchange listing**

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

**Website address**

[www.arafuraresources.com.au](http://www.arafuraresources.com.au)

# CHAIRMAN'S REPORT

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Fellow shareholder,

## THE GLOBAL CONTEXT

The 2013 financial year has seen the continuation of material external challenges in both global financial markets and the market for rare earths, which Arafura has addressed by significant internal achievement.

In recent years, global economic conditions (i.e. the GFC) have resulted in economic instability that is unprecedented in at least the last fifty years. In Australia, the economic impact on the resources sector has to some extent, been masked by resource industry growth, especially for commodities with Chinese demand. The GFC however, has now had a delayed impact on the Australian economy. This has resulted in further pressure on equity markets and in recent times, a softening of commodity prices. For small resource companies, this has led to more challenging project economics, share price pressure and funding difficulties. Arafura was, and is, no exception.

While macro-economic conditions have provided challenges, I am pleased to advise that Arafura enters the 2014 financial year in good shape and is positioned for further progress with the Nolans Project.

The Nolans Project has the potential for attractive returns and is one of the more significant rare earths projects in the world. However, while financial modelling shows excellent returns, the quantum of project funding required is large and that is an issue in current financial market conditions. This is sometimes referred to as “the sticker shock effect”, whereby capital markets have notional limits to project funding that are not strictly related to financial viability. This issue is exacerbated by the “resources boom” which has led Australia to have a cost structure that is less competitive in world terms.

Arafura has, for some time, recognised the new paradigm in project funding and Australia's cost structure, so we continue to look at measures to reduce the capital and operating costs of the Project.

Arafura remains on track for first production this decade. The Company's financial position is strong, with over A\$30 million in cash and no debt. This sets Arafura apart from many rare earth companies, which are underfunded and have yet to fully comprehend the technical and marketing challenges they face.

## CAPITALISING ON GLOBAL RARE EARTHS DEMAND

Despite recent softness in rare earths prices, the medium-term outlook remains promising *because the factors that drive medium to long-term demand for rare earths are unchanged*. The clean energy revolution and the need for technological innovation in many product sectors are the main drivers of the growing long-term demand for rare earths. This, coupled with forecast supply gaps for some rare earths that have high deprival value for end users, should see prices strengthen over the medium to long term.

# CHAIRMAN'S REPORT

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Arafura is well positioned to capitalise on this market opportunity. Our flagship Nolans Project is world-scale, advanced stage and contains a favourable product mix, which includes many of the "Critical Rare Earths" that are in tight supply. Arafura has also done the hard work required to understand the opportunities and challenges of the Nolans Project.

Furthermore, Arafura's strategic partnership with cornerstone shareholder East China Mineral Exploration and Development Bureau ("ECE") provides access to global leading technology and process optimisation techniques. This should enable Arafura to materially streamline its technical processes, reduce costs and de-risk the economics of the Nolans Project.

## INTERNAL ACTIONS TO COUNTER EXTERNAL CHALLENGES

While current financial market pressures are impacting the price of rare earths, the availability of funding and share price stability, these are matters largely outside of Arafura's control. Notwithstanding these external challenges, the Board and management have taken a number of key internal measures within their control, to enhance the economic appeal of the Nolans Project and strengthen the Company.

This has included a strong focus on reducing capital expenditure at both the corporate and project level. Specifically at the project level, developing solutions that allow the relocation of intermediate chemical processing from Whyalla to the Nolans Bore Mine site will deliver a significant saving of capital and operating costs.

## KEY MILESTONES

A number of key milestones were achieved during the year, including:

- Establishing a detailed Project Base Case financial and engineering model;
- Establishing Ore Reserves for the Project, supporting a 22 year mine life;
- Separating the last of five important Rare Earth Oxide ("REO") products to 99% purity for initial commercial evaluation;
- Engaging with Chinese rare earth experts to optimise technical aspects of the Project; and
- Signing a Memorandum of Understanding agreement with Shanghai Stock Exchange-listed Shenghe Resources Holding Co. Limited – a recognised leader in REO production and technology development.

This most recent achievement with Shenghe represents a landmark event for our Company that we expect can deliver material benefits to both parties in the short and long-term. Importantly, it will allow us to optimise our technical processes, potentially reduce the timeline to commercialisation and reduce our capital and operating costs going forward.

# CHAIRMAN'S REPORT

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## THE RARE EARTHS MARKET AND CHANNELS TO MARKET

The market for rare earths is unlikely to be a simple commodity market in the foreseeable future because of the physical volume of the market, current supply arrangements and the strategic importance of some rare earths to the most important customers. It is most likely that the market will require strategic partnerships to allow the development of supply channels that reassure customers that they have a measure of supply and price security. For this reason Arafura's ongoing engagement with potential partners such as Germany's ThyssenKrupp, Shenghe Resources and others are very important.

## SOLID FUNDING POSITION

Arafura remains in a strong financial position, having successfully raised capital through our major shareholder ECE earlier this year. This, coupled with the receipt of A\$22.5 million in R&D tax refunds and our ongoing actions to optimise project costs, positions Arafura to bring the Nolans Project into development and commercialisation.

## TRANSITION OF MANAGING DIRECTOR TO SET THE PLATFORM FOR THE NEXT PHASE

On 17 July 2013, the Company announced the transition of Chris Tonkin from his role as Managing Director to Non-Executive Director. Accordingly, the Board appointed our long serving CFO and Company Secretary Gavin Lockyer as Arafura's new Managing Director.

Firstly, I would like to thank Chris Tonkin for his invaluable contribution to the Company over the past year. Chris's influence and direction has allowed us to undertake a significant redirection of the Company and to identify and map out a clear strategy for the commercialisation of the Nolans Project. This has provided a solid platform upon which the Company can progress to its next phase.

Further to this, I am pleased to welcome Gavin Lockyer as the new Managing Director of Arafura. With Gavin's strong background in finance and resources operations, his leadership skills, coupled with his experience in reducing costs and creating shareholder wealth make me confident that he will successfully lead the Company into the future.

## THANK YOU

I would like to thank all of our shareholders for your continued support of Arafura. I look forward to reporting to you with further positive progress on the Company and the Nolans Project in the year ahead.

Yours sincerely,



**Ian Kowalick**

Chairman

# MANAGING DIRECTOR'S REVIEW

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**At Arafura, our ultimate goal and vision is to become a major global supplier of rare earths.**

With this core purpose in mind, our focus over the past 12 months has been on the development and optimisation of our flagship Nolans Rare Earths Project, located in the Northern Territory, Australia. Nolans is recognised as one of the world's most advanced rare earths development projects, and it is strategically positioned to be a major future supplier of rare earths.

During 2013 however, global economic conditions remained volatile, creating uncertainty for many businesses across the globe. Softening commodity prices, declining project returns and tight capital markets were just some of the challenges that emerged over the past year. To counter the impact of these factors, Arafura embarked on a strategy targeting improved process optimisation and enhanced capital efficiency. I am proud to say that this strategy has enhanced the economic appeal of our Nolans Project and strengthened the financial position of the Company.

On an operational level, 2013 was an excellent year for Arafura with the achievement of a number of key milestones for the Nolans Project.

## KEY OPERATIONAL HIGHLIGHTS

**Development of a Base Case for the Nolans Project**, which demonstrated its capability to deliver strong returns to shareholders.

**Establishment of JORC Ore Reserves for the Nolans Project**, which were independently estimated to be 24 million tonnes, containing 672,000 tonnes of rare earth oxides ("REO"s) at an average grade of 2.8%. These Ore Reserves are sufficient to support a 22-year mine life, and represent only a part of the total Nolans Bore resource – hence scope exists for further expansion of Ore Reserves. Arafura is one of only a few rare earths companies worldwide to have established substantial Ore Reserves.

**Separation of five rare earth oxides to 99% purity** – a significant achievement for Arafura, not only because it sets us apart from industry peers around the world, but because it attracts attention from off-takers and customers who have narrow product specifications. To date, we have been able to produce sufficient quantities of Cerium Oxide, Didymium Oxide, HRE Oxide, Lanthanum Oxide and SEG Oxide to allow for target customer evaluation. Feedback received to date has been positive, confirming that Arafura has the capability to produce REO products that meet customer satisfaction.

**Completion of a Trade-Off Study**, which was undertaken to assess the economics of various processing options and plant configurations for the Nolans Project. The Study has proved to be a valuable initiative, with some important revisions to the process flowsheet now being examined as a consequence.

In April 2013, we made a decision to relocate the Project's intermediate chemical processing plant from Whyalla in South Australia, to the Nolans Bore Mine site in the Northern Territory. This decision was supported by the Company's discovery of an extensive aquifer system in the Northern Territory, which has the potential to supply water for mining, beneficiation and intermediate chemical processing at Nolans Bore for the life of the Project.



## MANAGING DIRECTOR'S REVIEW

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We expect to achieve substantial cost advantages by relocating the final part of the refining process, or rare earths separation, to a site that satisfies one or both of the following criteria:

- The plant will be located alongside established infrastructure at a suitable chemical precinct that offers “over-the-fence” reagent supplies and other cost advantages; and/or
- The plant will be located in an area that is attractive to a strategic partner, providing that this does not otherwise compromise its cost structure and provides other advantages, such as access to finance or long-term product offtake arrangements.

The Company has ongoing discussions with potential strategic partners and has identified and is evaluating a number of potential sites for rare earths separation as part of a global site assessment study.

All these initiatives will result in substantial capital and operating cost savings and, in the case of the separation plant, other potential opportunities.

**Initiating a Technical Review and Optimisation Program** – Through introductions from our major shareholder and strategic partner, East China Mineral Exploration and Development Bureau (“ECE”), we engaged with a group of Chinese rare earth experts to identify opportunities to reduce project capital and operating costs. I’m encouraged by the quality and depth of our engagement to date, and the positive preliminary results of this work. This has led to the recent signing of a Memorandum of Understanding (“MOU”) agreement with Shenghe Resources Holding Co. – a Shanghai Stock Exchange-listed company that is a recognised leader in REO production and technology development in China.

The MOU with Shenghe is a significant milestone that has the potential to deliver substantial material short and long-term benefits, including optimising our technical processes, reducing the timeline for project commercialisation and lowering our capital and operating costs along the way. Shenghe will also introduce Arafura to potential engineering and procurement contractors with a view to further reduce capital costs. At this stage, the MOU is non-binding to allow both parties sufficient time to draft a more detailed Framework Agreement as the basis of a long-term strategic partnership.

### **STREAMLINING AND OPTIMISING THE NOLANS PROJECT**

In April 2013, we announced we were targeting savings of at least A\$500 million on the Project’s capital costs, as well as material savings in operating costs. We consider that savings of this order are achievable without reducing the Project’s planned annual production capacity of 20,000 tonnes of REO.

Already, we have identified savings from the relocation of intermediate chemical processing from Whyalla to Nolans Bore. This initiative alone is expected to deliver a capital reduction of approximately A\$160 million. In addition, savings of around A\$250 million on Base Case capital costs could be realised by locating our downstream refinery alongside an established chemical precinct.

Over and above these initiatives, our team is very focussed on Project costs. We have identified a number of areas where we believe that we can make further reductions in both capital and operating costs and are assessing these for incorporation into the Project. In addition, we expect that a Project Optimisation Review being undertaken in China will result in process and technology enhancements leading to further savings once the Review is completed in mid-2014. For this Review, we have

# MANAGING DIRECTOR'S REVIEW

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engaged with Chinese entities with specialised technical and industrial experience in rare earths. Our technical team is also closely involved in the Review.

## INTERNAL MEASURES FOCUSED ON CREATING SHAREHOLDER WEALTH

We have also been working hard to reduce our corporate running costs. Key measures in this regard include the restructuring and review of remuneration packages, refinement of some roles and implementing an employee incentive scheme linked to share price appreciation and timely achievement of key Project milestones.

Overall we have reduced our cash burn by A\$500,000 per month through a range of corporate and operational initiatives. We are positive about the steps we have made so far and we will continue to make cost-efficiency a priority.

## THE YEAR AHEAD

I am pleased to report that we have ended the financial year in an enviable position – well funded with in excess of A\$30 million available, well partnered and with a clear and cost-effective strategy to achieve share price growth and Project commercialisation.

The focus for Arafura is to maintain momentum and continue to build and develop its strong relationships around the world. The MOU with China's Shenghe Resources further strengthens the Company's standing in the rare earths industry.

Pleasingly, our financial position is far superior compared with most of our peers. Our short term funding requirements have been reduced, with much of our optimisation and test work program expected to be undertaken in China. As the outputs from this work become clearer, Arafura will seek to formalise strategic relationships in order to secure appropriate financing to advance the Nolans Project to the next level.

Arafura is increasingly being viewed as a strong candidate to be the next major rare earths producer after Lynas and Molycorp. Funding for project development will be challenging until global financial markets improve, but the Company is in a solid position to meet the challenge ahead.

## THANK YOU

Finally, I would like express my appreciation to shareholders for their ongoing support. I am excited about taking on the role of Managing Director and have great confidence in our team's ability to transition Arafura over the next few years to a globally significant rare earths producer. I look forward to sharing in this prosperous time with each of you.

Yours sincerely,



**Gavin Lockyer**  
Managing Director

# OPERATIONS OVERVIEW

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The Nolans Rare Earths Project (“Nolans” or the “Project”) in the Northern Territory is Arafura’s flagship asset. The Project is well advanced, with a Base Case established and Ore Reserves declared. The focus is now on advancing the Project through feasibility and towards development and commercialisation – targeted for 2016. Once fully operational, the aim will be to produce 20,000 tonnes of rare earth oxide (“REO”) products each year. This output target is projected to represent about 10 per cent of the world’s rare earths supply and, if achieved, would position Arafura as a leading rare earths producer.

Over the past 12 months, significant in-roads have been made with regard to operations. Notable achievements include:

- Establishment of a Base Case for the Nolans Rare Earths Project ;
- Declaration of world-scale Ore Reserves for Nolans Bore – sufficient for a minimum 22-year mine life;
- Successful separation of Lanthanum Oxide to 99% purity, the last of five individual REO products targeted for initial commercialisation;
- Completion of a Trade-Off Study which examined a number of process options and plant configurations that have the potential to enhance the economics of the Project. The study has subsequently resulted in some important changes to the process flow-sheet;
- Decision to relocate the Project’s intermediate chemical processing plant from Whyalla in South Australia, to the Nolans Bore Mine site in the Northern Territory;
- Decision to locate the Project’s rare earths separation plant alongside an established chemical precinct, most likely offshore;
- Discovery of an extensive aquifer system in the Northern Territory that has the potential to supply water to the mine, concentrator and intermediate chemical processing plant for the life of mine;
- Engagement with Chinese rare earth experts to undertake a Technical Review and Optimisation Program aimed at optimising unit processes and technical aspects of the project to further reduce capital and operating costs;
- Signing of an Memorandum of Understanding (“MOU”) with Shanghai Stock Exchange-listed, Shenghe Resources Holding Co. Limited – a recognised leader in REO production and technology development; and
- Execution of three exploration farm-out agreements for non-rare earth opportunities in the Northern Territory with Rox Resources, Ark Mines and Ferrowest.

## THE NOLANS PROJECT HOSTS A WORLD-CLASS RESOURCE

The asset underpinning the development of the Nolans Rare Earths Project is the world-class Nolans Bore mineral deposit, located 10 kilometres west of the Stuart Highway near Aileron Roadhouse, and approximately 135 kilometres north-north-west of Alice Springs.

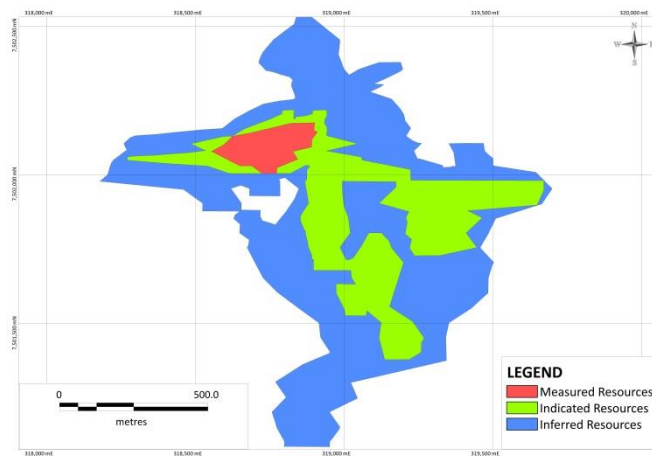
# OPERATIONS OVERVIEW

Nolans Bore is one of the most intensively explored rare earths deposits in the world. The basis of the Company's detailed investigation of the deposit is almost 90,000 metres of drilling at an average spacing of 40 X 40 metres. This work has delineated total Mineral Resources of 47 million tonnes from surface, containing:

- 1.2 million tonnes of rare earths (grading 2.6% REO);
- 5.4 million tonnes of phosphate (grading 11% P<sub>2</sub>O<sub>5</sub>); and
- 19.5 million pounds of uranium (grading 0.41 lb/t U<sub>3</sub>O<sub>8</sub>).

Resources	Tonnes (million)	Rare Earths % REO	Tonnes REO	Phosphate % P <sub>2</sub> O <sub>5</sub>	Uranium % U <sub>3</sub> O <sub>8</sub>
Measured	4.3	3.3	144,000	13	0.03
Indicated	21	2.6	563,000	12	0.02
Inferred	22	2.4	511,000	10	0.02
<b>TOTAL</b>	<b>47</b>	<b>2.6</b>	<b>1,217,000</b>	<b>11</b>	<b>0.02</b>

1% REO cut-off grade



Rare earths mineralisation at Nolans Bore remains open at depths below 220 metres, providing further upside to build the resource inventory.

Nolans Bore also carries minimal resource risk, due to the comprehensive drilling and detailed mineral characterisation work completed on the deposit to date.

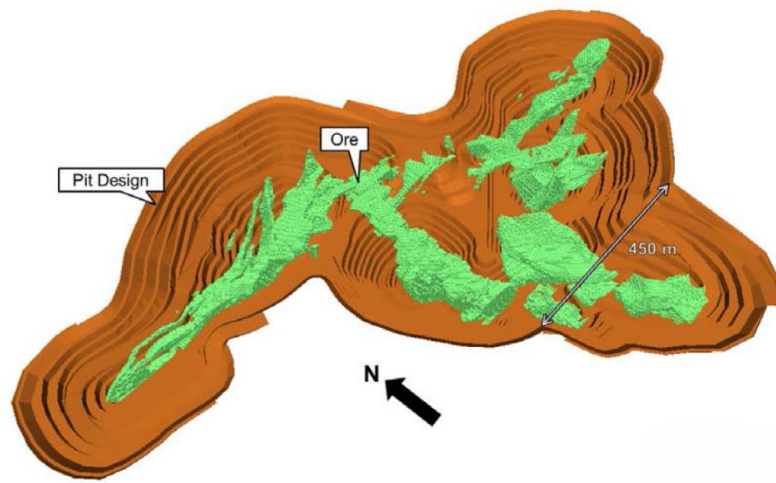
## NOLANS BORE ORE RESERVERS

In December 2012, ninety-five per cent of higher confidence Measured and Indicated resources at Nolans Bore were independently converted to 24 million tonnes of Ore Reserves.

# OPERATIONS OVERVIEW

Reserves	Tonnes (million)	Rare Earths % REO	Tonnes REO	Phosphate % P <sub>2</sub> O <sub>5</sub>	Uranium % U <sub>3</sub> O <sub>8</sub>
<b>Probable</b>	24	2.8	672,000	12	0.02

These Ore Reserves represent that part of Nolans Bore that can be economically mined by open pit methods. They support a mine life of 22 years, based on a maximum beneficiation throughput of 1.1 million tonnes per annum.



## NOLANS BORE AVERAGE REO COMPOSITION

Rare Earth Oxide	Average in-situ composition
Lanthanum as La <sub>2</sub> O <sub>3</sub>	19.13%
Cerium as CeO <sub>2</sub>	48.72%
Praseodymium as Pr <sub>6</sub> O <sub>11</sub>	5.93%
Neodymium as Nd <sub>2</sub> O <sub>3</sub>	20.58%
Samarium as Sm <sub>2</sub> O <sub>3</sub>	2.30%
Europium as Eu <sub>2</sub> O <sub>3</sub>	0.39%
Gadolinium as Gd <sub>2</sub> O <sub>3</sub>	0.99%
Terbium as Tb <sub>4</sub> O <sub>7</sub>	0.08%
Dysprosium as Dy <sub>2</sub> O <sub>3</sub>	0.32%
Holmium as Ho <sub>2</sub> O <sub>3</sub>	0.04%
Erbium as Er <sub>2</sub> O <sub>3</sub>	0.09%
Thulium as Tm <sub>2</sub> O <sub>3</sub>	0.01%
Ytterbium as Yb <sub>2</sub> O <sub>3</sub>	0.06%
Lutetium as Lu <sub>2</sub> O <sub>3</sub>	0.01%
Yttrium as Y <sub>2</sub> O <sub>3</sub>	1.35%
<b>Total</b>	<b>100.00%</b>

# OPERATIONS OVERVIEW

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The metallurgical flowsheet used in estimating Nolans Bore Ore Reserves can be summarised as follows:

- Ore beneficiation, comprising three-stage crushing, scrubbing, dense media separation, milling, wet high intensity magnetic separation, and flotation, to produce a mineral concentrate;
- Hydrochloric acid pre-leach and rare earths recovery, to produce a pre-leach residue and precipitate;
- Sulphuric acid bake and purification, to produce an intermediate rare earth carbonate; and
- Solvent extraction and calcination, to produce final separated REO products.

Development of the flowsheet follows several years of detailed and extensive bench-scale, pilot-scale and demonstration-scale testwork of a number of unit processes, using material types acquired from bulk and drill samples representative of the initial years of development of the Nolans Bore orebody. Validation of the process flowsheet, from beneficiation through to final REO product separation, is well advanced.

In addition to the Ore Reserves, the Company has identified 21 million tonnes of Inferred Resources at Nolans Bore. These have the potential to be converted to additional Ore Reserves with further drilling.

The establishment of Ore Reserves at Nolans Bore represents another key milestone for the Company, and further validates the advanced nature and commercial appeal of the Nolans Project.

## GLOBAL DEMAND FOR RARE EARTHS

The global demand for rare earths is strong and encouragingly, it continues to gain momentum – a trend that is being driven by the clean energy revolution and technology innovation. Moreover, several of the rare earths that are in high concentration within the Nolans Bore deposit (neodymium, europium, terbium, dysprosium and yttrium) are considered ‘Critical Rare Earths’ as they are in short supply now and also into the foreseeable future.

The global demand for rare earths over the forecast period 2013-2022 is estimated to grow at an annual rate of six-to-seven per cent, with demand in 2013 at approximately 115,000-125,000 tonnes REO. The importance of rare earths to a variety of commercial industries remains critical. Key drivers of the demand for rare earths include the auto industry, oil and gas, energy efficient lighting, electronics, advanced ceramics and other important sectors such as medical, communications and defence. Catalysts, metal alloys and magnet applications represent the largest markets for global rare earth demand.

The demand for neodymium and didymium (mixed neodymium and praseodymium) for the manufacture of NdFeB (or “Neo”) magnets is expected to grow at 10 per cent per annum, with magnet usage in key sectors – the auto industry, hybrid technology and the wind turbine market. Catalysts for automobile and petroleum refining, metal alloys for hybrid vehicle batteries, and energy efficient fluorescent lamps are also expected to show steady growth – these require lanthanum, cerium, europium and yttrium.

# OPERATIONS OVERVIEW

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## CUSTOMERS AND PRICING

Arafura intends to be a key supplier of rare earth products in high growth market segments in Japan, South Korea, Europe and the USA.

The Company's success in producing five separated high- purity REO products is a significant point of difference between Arafura and its industry peers, both in Australia and elsewhere in the world.

These five REO products are Cerium Oxide, Didymium Oxide, HRE (heavy rare earth-yttrium mixed) Oxide, Lanthanum Oxide and SEG (samarium-europium-gadolinium mixed) Oxide. Sufficient quantities of each have been produced for target customer evaluation. Feedback to date has been positive and confirms that the separated products are to defined product specifications (99% purity).

Arafura continues to develop off- take arrangements and a pricing framework with German conglomerate ThyssenKrupp. In mid-2013 meetings were convened in Europe with key industrial end users of rare earths products, many of whom are liaising with ThyssenKrupp for potential supply distribution to secure critical material supply for their businesses. In other developments, a letter of extension to the non- binding MOU with a large South Korean multinational was executed during the year, and further engagement is anticipated in the near future.

The recent execution of an MOU with Chinese rare earths producer Shenghe Resources further validates the quality and commercial appeal of the Nolans Project and its global-scale supply potential.

It is becoming apparent that Arafura is viewed around the world as a key future supplier of critical rare earths.

In recent months, prices of rare earth products have increased due to a combination of constraints placed on mining, processing and exports by Chinese authorities, and the continued strong global demand for these products. REO prices reached a peak level in mid-2011, before declining through early 2012 as global economies slowed. Future pricing is expected to be influenced by global supply and demand trends.

Key macro trends, including the clean energy revolution and technology innovation, are expected to drive above system growth in rare earths demand over the long term. This, coupled with inadequate supply forecasted for the coming years, should see strengthening prices over a prolonged cycle.

## PROJECT STATUS AND FORWARD PLAN

In light of current cost estimates, recent rare earth prices and economic assumptions, the Company recently undertook a review of its August 2012 Base Case. It has been shown that significant reductions in Project capital and operating costs and improvements in the process flowsheet can be achieved through replacing hydrochloric acid pre-leach with a sulphuric acid pre-leach process. Further assessment is required; however the preliminary analysis is positive for the Project.

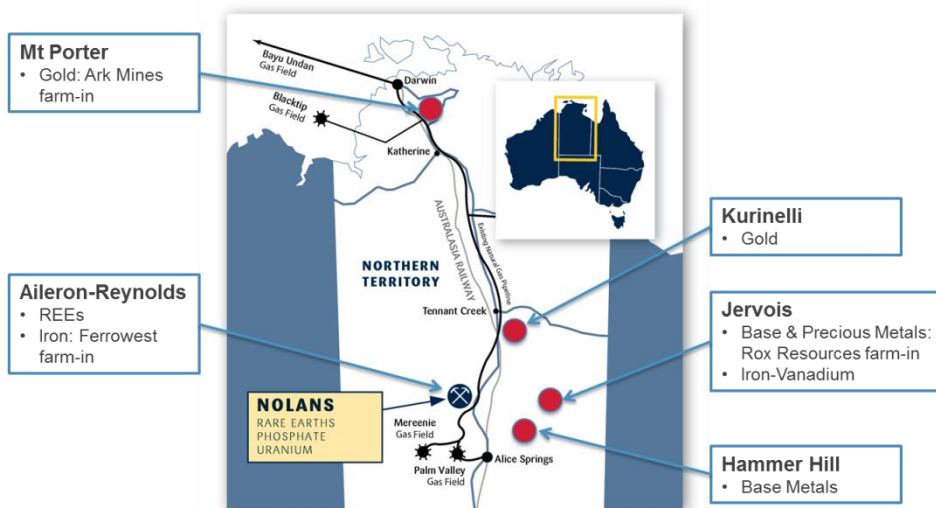
# OPERATIONS OVERVIEW

The focus for Arafura is to maintain forward momentum and continue to build relationships and develop partnership arrangements around the world. In particular, through the positive and growing relationship with ThyssenKrupp around the sale of Arafura's rare earth products into Germany, the Company expects to increase its marketing opportunities over the coming year. In addition, the recent MOU with China's Shenghe Resources, a recognised leader in REO production and technology development, cements the Company's strong position in the rare earths market.

Increasingly, Arafura is being identified as a strong candidate to be the next major rare earths producer after Lynas and Molycorp. Funding for project development will be challenging until global financial markets improve, but the Company is in a solid position to meet this challenge.

## EXPLORATION

Arafura carefully balances its priority to develop the Nolans Project with the need to deliver future growth through success in exploration and participating in other development opportunities. The Company's primary exploration focus in the Northern Territory is to generate and systematically test rare earth targets on its cornerstone Aileron-Reynolds land package, commencing with those in closest proximity to the Nolans Bore operations.



In addition to its rare earths portfolio, Arafura has a number of other exploration projects in the Northern Territory that hold potential for discovery of non-rare earth commodities.

At Mt Porter, south-east of Darwin, Arafura is currently engaged in a Farm-In and Joint Venture arrangement with ASX-listed Ark Mines. Ark's focus is to develop the Mt Porter gold resource and to further add to the resource base through exploration.

At Aileron-Reynolds, ASX-listed Ferrowest has committed to a Farm-In and Joint Venture agreement to acquire up to 60% of Arafura's iron rights.

On the Jervois Project north-east of Alice Springs, ASX-listed company Rox Resources has commenced its first year of exploration under a Farm-In and Joint Venture agreement to acquire up to 70% of Arafura's base and precious metals rights.



# OPERATIONS OVERVIEW

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## Rare Earths, Iron

Aileron-Reynolds (100% Arafura)

<b>Location</b>	Reynolds Range, about 135 km north-north-west of Alice Springs.
<b>Area Size</b>	2,349 km <sup>2</sup>
<b>Granted Tenements</b>	EL 28473, EL 28498, EL 24548, EL 27337, EL 29227, EL 29503, EL 29509
<b>Tenement Applications</b>	ML 26659
	Arafura also holds non-uranium exploration and development rights over an adjoining tenement held by Central Australian Phosphate Limited (EL 24741).

## Iron, Vanadium, Base Metals, Precious Metals

Jervois (100% Arafura)

<b>Location</b>	290 km north-east of Alice Springs
<b>Area Size</b>	279 km <sup>2</sup>
<b>Granted Tenements</b>	EL 29701

## Gold

Mt Porter (100% Arafura)

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

## Gold

Kurinelli (100% Arafura)

<b>Location</b>	150 km south-east of Tennant Creek
<b>Area Size</b>	182 km <sup>2</sup>
<b>Granted Tenements</b>	MA 74 and MCC 950-953

## Base Metals

Hammer Hill (100% Arafura)

<b>Location</b>	Harts Range, about 180 km north-east of Alice Springs
<b>Area Size</b>	291 km <sup>2</sup>
<b>Granted Tenements</b>	EL 9725, EL 10136

# OPERATIONS OVERVIEW

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## Disclaimer

### Important Notice

This Operations Overview 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 Overview. No representation or warranty, express or implied is made by Arafura Resources Limited (“Arafura Resources”) that any forward-looking statement contained in this Operations Overview 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 Overview 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 Overview 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 Overview or any other information made available to a person, nor any obligation to furnish the person with any further information.

This Operations Overview does not constitute an offer of securities in Arafura Resources, nor an invitation to apply for such securities. This Operations Overview 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 Overview (including any assumptions) before acting.

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

The information in this Operations Overview 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 2004 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 presentation of the matters based on his information in the form and context in which it appears.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2013

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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 2013.

## 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<sup>(1)</sup>  
S. Lu  
T. Grose<sup>(2)</sup>  
A. Losada-Calderon<sup>(3)</sup>  
G. Lockyer<sup>(1)</sup>

## Other Details

- (1) Mr Chris Tonkin stepped down as Managing Director and Chief Executive Officer on the 23rd of July 2013 and Mr Gavin Lockyer was appointed to the position. Mr Tonkin will continue as a Non-Executive Director of the Company.
- (2) Mr. Terry Grose was appointed as a Non-Executive Director on the 21<sup>st</sup> of January 2013.
- (3) Mr. Alex Losada-Calderon stepped down from his position of Non-Executive Director on the 30<sup>th</sup> of November 2012.

## Principal activities

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

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

## Dividends – Arafura Resources Limited

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

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2013

## Operating and financial review

The loss of the Group for the year after income tax was \$11,762,148 (2012: \$8,694,922). Excluding significant one-off non-cash impairment items this financial year of \$7,718,528 (2012: \$68,266) the Groups' loss would be reduced to \$4,043,620 reflecting the Company's objective to conserve cash while it transitions through its review and optimisation programs on the Nolans Project. Further evidence of this can be seen by a \$2,548,855 reduction in 'payments to suppliers and employees' in the consolidated statement of cashflow over the 2013 period.

Further, Arafura received a Research and Development ("R&D") incentive rebate totalling \$22,537,747 in the 2013 period. The rebate strengthens Arafura's financial position, ensuring that the Company has the capacity to continue investigating further technology and optimisation initiatives as promoted by the Australian Government. The rebate initiative by the Australian Tax Office will continue into the 2014 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) An increase in contributed equity of \$9,764,306 (from \$184,363,890 to \$194,128,196) as a result of Arafura's placement to strategic investor ECE Nolans Investment Company Pty Ltd ("ECE"), which settled on the 21<sup>st</sup> of November 2012. Funds from the capital raising are being used to progress the feasibility study for the Nolans Rare Earths Project.

Details	Number of shares	Issue Price	\$
Opening balance 1 July 2012	396,004,144		184,363,890
Placement to ECE	45,266,500	\$0.22	9,958,630
Share issue transaction costs	-	-	(194,324)
Closing balance 30 June 2013	441,270,644		194,128,196

- (b) On the 11<sup>th</sup> of December 2012 Arafura announced its maiden JORC Ore Reserve for its 100% owned Nolans Rare Earths Project. The Ore Reserve was independently prepared by AMC Consultants Pty Ltd and is estimated to contain:

Reserves	Tonnes (million)	Rare Earths REO %	Tonnes REO	Phosphate P2O5 %	Tonnes P2O5	Uranium U3O8 lb/t	Tonnes U3O8
Probable	24	2.8	672,000	12	2,976,000	0.45	4,900

The Ore Reserve represents that part of the Nolans Bore Mineral Resource that can be economically mined by open pit methods. Based on a maximum beneficiation throughput of 1.1 million tonnes per annum, the Ore Reserve supports a mine life of 22 years.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2013

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- (c) Arafura received on the 18<sup>th</sup> of October a cash injection of \$22,537,747 which relates to an Australian Government rebate of 45 cents in every dollar spent on eligible R&D activities. The incentive is a jointly administered program between AusIndustry and the Australian Taxation Office. The change in Government legislation last financial year is welcomed by Arafura, as it supports the Company through its transition from evaluation to development.
- (d) As part of Arafura's ongoing cost saving initiatives initially announced on the 22<sup>nd</sup> of April 2013, Arafura revised the scope of the Nolans Project and following a comprehensive review by the Company, it was evident that the Whyalla site is no longer required to facilitate the needs of the Project whilst also determining that it was unlikely that any further benefit could be retained by continuing with the purchasing agreement. As a result, Arafura announced on the 21<sup>st</sup> of June 2013 that the Whyalla Land Purchase Agreement was terminated. The intermediate plant will be relocated to the mine site in the Northern Territory. Studies are currently underway to identify the optimal location for a rare earths separation facility.

## **Matters subsequent to the end of the financial year**

- a) Arafura announced that Mr Chris Tonkin stepped down as Managing Director and Chief Executive Officer on the 23<sup>rd</sup> of July 2013 and Mr Gavin Lockyer was appointed to the position. Mr Tonkin will continue as a Non-Executive Director of the Company.
- b) Arafura issued a total of 7,650,000 options to employees in accordance with the Company's Long-Term Incentive Plan. These options were granted on the 18<sup>th</sup> of July 2013, expire on the 18<sup>th</sup> of July 2016 and can be exercised at \$0.14.
- c) Arafura entered into a Memorandum of Understanding with Shenghe Resources Holding Company Ltd as announced on the 9<sup>th</sup> of September 2013. The MOU has the objective of developing Arafura's Nolans Rare Earths Project and encourages Shenghe Resources to utilise the development of Nolans as an opportunity for international expansion of its existing Chinese based Rare Earths business.

No other matter or circumstance has arisen since 30 June 2013 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.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2013

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## **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 progressing, including a target capital cost reduction of up to \$1 billion. Studies are also underway with Chinese rare earths experts who are investigating further optimisation of the project flow sheet. Results will be announced forthwith.

## **Environmental regulation**

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

### *Greenhouse gas and energy data reporting requirements*

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

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2013

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## Information on Directors

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

### ***Experience and expertise***

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

Ian is currently a Director and Consultant. At present, he is Chairman of Playford Capital, a councillor of the University of Adelaide and Chair of its Finance Committee.

### **Appointed**

19 December 2002.

### **Other current Directorships**

Chairman of Playford Capital.

### **Former Directorships in the last 3 years**

Syngas Limited.

Director of Central Australian Phosphate Limited (formally known as Nupower Resources Ltd).

### **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 2013

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## Information on Directors (cont)

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

### **Experience and expertise**

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

He joined Arafura in 2006 as Chief Financial Officer and Company Secretary after having served as Financial Controller with the Tethyan Copper Company Limited. Gavin previously held a number of senior finance and treasury positions in global mining companies Newcrest and Newmont following a successful international investment banking career with BankWest and ANZ in Australia, and Bankers Trust and Deutsche Bank in London. Mr Gavin Lockyer was appointed Managing Director and Chief Executive Officer on 23<sup>rd</sup> of July 2013.

Gavin's diverse, global experience has provided management and leadership opportunities in a range of disciplines including; Accounting, Financial & Investment Banking, Major Resource Development & Operations and Global Bank Treasuries. Over the past 23 years his career has exposed him to business practices in Australia, Europe, the UK, the US, Japan, China and Pakistan.

### **First Appointed**

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

### **Other current Directorships**

None.

### **Former Directorships in the last 3 years**

None.

### **Special responsibilities**

None.

### **Interests in shares and options**

1,630,000 unlisted options in Arafura Resources Limited (*Indirect*).  
334,014 ordinary shares in Arafura Resources Limited (*Indirect*).



# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2013

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## Information on Directors (cont)

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

### ***Experience and expertise***

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

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

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

### **First Appointed**

1 January 2011.

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

### **Other current Directorships**

None.

### **Former Directorships in the last 3 years**

None.

### **Special responsibilities**

None.

### **Interests in shares and options**

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

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

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2013

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## Information on Directors (cont)

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

### ***Experience and Expertise***

Ms. Shasha Lu was Executive Director and CEO of Hong Kong East China Non-Ferrous Mineral Resources Co. Ltd. (HKECE), a wholly owned subsidiary of Eastern China Exploration and Development Bureau (ECE). HKECE holds the foreign business interests of ECE.

Ms. Lu holds an EMBA from Nanjing 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.

In 2008, Ms. Lu joined Eastern China Exploration and Development Bureau and became the Executive Director and CEO of Hong Kong East China Non-Ferrous Mineral Resources Co Ltd. Ms. Lu is also a Director of Australian ECE Nolan's Investment Limited and ECE Nolans.

### **First Appointed**

21 July 2009.

### **Other current Directorships**

Globe Metals and Mining Ltd.

### **Former Directorships in the last 3 years**

None.

### **Special responsibilities**

Member of Remuneration and Nomination Committee.

Member of the Audit and Risk Committee.

### **Interests in shares and options**

1,500,000 unlisted options in Arafura Resources Limited (*Direct*).

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2013

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## Information on Directors (cont)

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

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

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

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

Since returning to Australia in 2008 he has worked as a consultant specialising in strategic planning and financial management and as a Director of a number of companies.

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

### First Appointed

21 February 2013.

### Other current Directorships

None.

### Former Directorships in the last 3 years

None.

### Special responsibilities

Chairman of the Audit and Risk Committee.

Member of the Remuneration and Nomination Committee.

### Interests in shares and options

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

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2013

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## Information on Directors (cont)

**Alex Losada-Calderon, PhD, BSc. (Hons).** *Non- Executive Director.*

### ***Experience and expertise***

Dr. Losada-Calderon has 25 years' experience working worldwide as a geologist, project manager and country general manager for various mining and engineering companies. He has been involved in metallurgical research in government organizations; and feasibility studies and the development of major mining projects in the Caribbean, Latin America and East and South Eastern Asian Countries.

Dr. Losada-Calderon is the Managing Director of TAE Resources Pty Ltd. TAE is a private consultancy company that provides strategic advice for mining companies in the areas of mineral exploration, project acquisitions and financing, partnerships and JV's.

It also provides business development, project assessment and company valuations. Until the end of July 2009, Dr. Losada-Calderon was the Vice-President of Exploration and Business Development for Southwestern Resources Corp. located in Vancouver, Canada. SWG had its major projects in Peru and China and was taken over by Hochschild Mining PLC of London in July 2009.

Dr. Losada-Calderon is a Director of ECE Nolan's and AOSU Investment and Development Co. Ltd.

Dr. Losada-Calderon stepped down from his position as Non-Executive Director on the 30<sup>th</sup> of November 2012.

### **First Appointed**

25 September 2009.

### **Other current Directorships**

None.

### **Former Directorships in the last 3 years**

None.

### **Special responsibilities**

Member of the Audit and Risk Committee up until 30 November 2012.

Member of the Remuneration and Nomination Committee up until 30 November 2012.

### **Interests in shares and options**

None.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2013

## 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 of each Board Committee held during the year ended 30 June 2013 and the number of meetings attended by each Director were:

Director	Board meetings		Meetings of committees			
	Full meetings of Directors held	Full meetings if Directors attended	Audit & Risk Committee meetings held	Audit & Risk Committee meetings attended	Remuneration & Nomination Committee held	Remuneration & Nomination Committee attended
Terry Grose	5	5	1	1	-	-
Ian Kowalick	12	12	3	3	-	-
Shasha Lu	12	11	1	1	-	-
Chris Tonkin	12	12	2	2	-	-
Alex Losada-Calderon	5	5	2	2	-	-

As at 30 June 2013 the Committees of Arafura are comprised of the following:

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

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2013

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## Remuneration report (audited)

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

<b>Non-Executive and Executive Directors</b>
Ian Kowalick Chris Tonkin Shasha Lu Terry Grose (from 21 February 2013) Alex Losada-Calderon (until 30 November 2012)

### *Other Key Management Personnel*

<b>Name</b>	<b>Position</b>
Gavin Lockyer <sup>(1)</sup>	Chief Financial Officer and Company Secretary
John Ganser	General Manager of Projects
Neil Graham	General Manager of Operations and Technology
Richard Brescianini	General Manager of Strategic Development and Exploration

### *Changes since the end of the reporting period*

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

## 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 2013

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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 2013 financial year, all compensation arrangements for Directors and the Group's Executives were determined at Board level after taking into account the competitive rates prevailing in the market place.

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

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

The Remuneration and Nomination Committee engaged independent consultants to benchmark Directors and Executive fees against the prevailing market conditions for the period commencing 1 July 2013, whilst providing a process for evaluation and performance moving forward. Costs to be incurred for this process are yet to be determined.

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 2013

## 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, through the Remuneration and Nomination Committee has received advice from independent remuneration consultants to ensure Non-Executive Directors' fees and payments are appropriate and in line with the market. 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 2013	From 1 July 2013
<b>Base Fees</b>		
Chairman	\$135,000	\$135,000
Deputy Chairman	\$102,500	\$102,500
Other Non-Executive Directors	\$70,000	\$70,000
<b>Additional Fees</b>		
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 2013.

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

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

### Executive pay

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

- base pay and benefits;



# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2013

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## Remuneration report (audited) - (cont)

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

### *Base pay and benefits*

The base pay is inclusive of statutory superannuation and is structured as a total employment cost package, which may be delivered as a mix of cash and prescribed non-financial benefits at an Executive's discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. External remuneration consultants McDonald and Company (Australia) Pty Ltd were paid \$11,500 (GST excl.) in the 2012 financial year to provide analysis to ensure the base pay is set to reflect the market for a comparable role. 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 2013 and will be subject to a revision on 31 December 2013.

Managing Director and CEO Mr. Chris Tonkin's contract remained unchanged for the 2013 financial year.

### *Short-term performance incentives*

Short-term incentives are used to encourage and reward the performance of Executive Directors, officers and senior management for their role in achieving corporate objectives and are directly linked to the creation of shareholder wealth.

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

For the year ended 30 June 2013, there were two KPI's for Executives (excluding the Managing Director and CEO) which are intended to be aligned with shareholder interests. These relate to progress towards the completion of the Feasibility Study and progress towards securing additional finance.

# DIRECTORS' REPORT

## FOR THE YEAR ENDED 30 JUNE 2013

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### Remuneration report (audited) - (cont)

Mr. Tonkin received no bonus as his capacity as Managing Director and Chief Executive Officer was fixed through his consultancy contract. However, senior management was to receive up to 30% of Total Fixed Remuneration ("TFR") upon KPI's being met in the 2013 financial year. For the year ended 30 June 2013 no Short-Term Incentives were paid to Executives or the Managing Director. A loyalty payment was received by senior management and employees in January 2013 to reward them for their contributions and loyalty to the Company after several pay freezes to base pay and to help retain knowledge within the business.

#### *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 25 November 2010, 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.

Arafura will request its shareholders to reapprove its Company's Option Plan at the 2013 AGM.

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

#### **B** *Details of remuneration*

Details on the remuneration of the Directors, key management personnel of the Group (as defined in AASB 124: *Related Party Disclosures*) and specified Executives of Arafura Resources Limited are set out in the following tables.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2013

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## Remuneration report (audited) - (cont)

For the 2013 financial year, the key management personnel include the Directors of Arafura Resources Limited and those Executives that report directly to the Managing Director and Chief Executive Officer being:

- R Brescianini – *General Manager Strategic Development and Exploration*
- J Ganser – *General Manager of Projects*
- G Lockyer – *Chief Financial Officer and Company Secretary*
- N Graham – *General Manager of Operations and Technology*

\* Mr Gavin Lockyer was appointed Managing Director and Chief Executive Officer on the 23<sup>rd</sup> of July 2013. Mr. Peter Sherrington was appointed to the roles of Chief Financial Officer and Company Secretary at the same time.

## Voting and comments made at the company's 2012 Annual General Meeting

Arafura Resources Ltd received more than 93% of "for" votes on its remuneration report for the 2012 financial year. The company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

At the 2011 Annual General Meeting ("AGM") more than 25% of the votes cast on the resolution to adopt the remuneration report were voted "against", under what is referred to as the "two strikes" rule. This meant that for the 2012 AGM, if the remuneration report had again received more than 25% votes cast "against", the company would be required to put to shareholders a resolution proposing the calling of an extraordinary general meeting to consider the appointment of new Directors to the company (known as a Spill Resolution). As less than 7% voted against the remuneration report at the 2012 AGM, this was not required.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2013

## Remuneration report (audited) - (cont)

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

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

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2013

## Remuneration report (audited) - (cont)

2012 Name	Short-term benefits			Post-employment benefits	Long-term benefits		Share-based payments	Total	Percent - consisting of options
	Cash salary and fees	Bonus	Non-monetary benefits	Superannuation	Long service leave	Termination benefits	Options		
	\$	\$	\$	\$	\$	\$	\$	\$	%
<b>Non-Executive Directors</b>									
I Laurance	74,250	-	812	8,910	-	-	-	83,972	-
I Kowalick	107,853	-	-	12,942	-	-	-	120,795	-
T Jackson	5,833	-	-	40,833	-	-	-	46,666	-
I Muir	29,167	-	-	3,500	-	-	-	32,667	-
A Losada-Calderon	61,667	-	-	7,400	-	-	339,209	408,276	83%
C Tonkin <sup>(1)</sup>	130,417	-	-	50,117	-	-	76,286	256,820	30%
L Reynolds	32,128	-	-	3,855	-	-	-	35,983	-
L Jones	36,516	-	-	3,286	-	-	-	39,802	-
S Lu	217,382	-	-	26,086	-	-	101,714	345,182	29%
<b>Executive Directors</b>									
S Ward <sup>(2)</sup>	763,810	177,660	1,895	33,336	-	444,700	-	1,421,401	-
<b>Other key management personnel (Group)</b>									
S Mackowski	65,880	-	1,624	11,008	-	-	5,885	84,397	7%
R Brescianini	276,229	-	2,166	24,870	8,640	-	58,449	370,354	16%
N Graham	316,576	-	2,166	37,989	382	-	177,526	534,639	33%
J Ganser	340,560	-	2,166	30,649	432	-	195,611	569,418	34%
G Lockyer	303,852	-	2,166	27,347	27,361	-	60,971	421,697	14%
<b>Total</b>	<b>2,762,120</b>	<b>177,660</b>	<b>12,995</b>	<b>322,128</b>	<b>36,815</b>	<b>444,700</b>	<b>1,015,651</b>	<b>4,772,069</b>	<b>21%</b>

(1) Includes \$90,000 (GST Exclusive) for executive consultancy services at standard commercial rates.

(2) Steve Ward's bonus relates to the achievement of a 2011 Calendar Year Short Term Incentive Loyalty Bonus, being 20% of his Total Fixed Remuneration.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2013

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## Remuneration report (audited) - (cont)

### **C** *Service agreements*

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

Remuneration and other terms of employment for the Managing Director and Chief Executive Officer and other key management personnel are also formalised in service agreements. Each of these agreements provide for the provision of performance-related cash bonuses and other benefits including, parking and participation where eligible in the Arafura Share Option Plan. Other major provisions of the agreements relating to remuneration are set out below for the 2013 financial year:

#### *C S Tonkin, Managing Director and Chief Executive Officer*

- No term of agreement.
- \$30,000 (GST Exclusive) to be paid per month to Catalyst Capital Solutions Pty Ltd for services performed as Chief Executive Officer.
- Payment of \$78,400 per annum inclusive of superannuation for Non-Executive Director Fees.
- No termination payments/benefits are to be made due to the consultancy agreement established between Arafura Resources Ltd and Catalyst Capital Solutions Pty Ltd.

#### *G J Lockyer, Chief Financial Officer and Company Secretary*

- No term of agreement.
- Base salary inclusive of superannuation, for the year ended 30 June 2013 of \$330,000. Gavin's transition to Managing Director and Chief Executive Officer entitles him to a base salary inclusive of superannuation for the year end 30 June 2014 of \$425,000.
- Short-Term Incentive Bonus of 30% of Total Fixed Remuneration based on Key Indicators currently under review.
- An annual \$1,100 allowance for general health and wellbeing.
- Long Term Incentive plan, on the 10<sup>th</sup> of January 2013, 430,000 options were granted in accordance with Arafura's ESOP. Further details can be found at note 27.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to three months of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to six months of the base salary.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2013

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## 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 2013 of \$300,000.
- Short-Term Incentive Bonus of 30% of Total Fixed Remuneration based on Key Indicators currently under review.
- An annual \$1,100 allowance for general health and wellbeing.
- Long Term Incentive plan, on the 10<sup>th</sup> of January 2013, 430,000 options were granted in accordance with Arafura's ESOP. Further details can be found at note 27.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to three months of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to six months of the base salary.

N Graham, *General Manager of Operations and Technology*

- No term of agreement.
- Base salary inclusive of superannuation for the year ended 30 June 2013 of \$330,000.
- Short-Term Incentive Bonus of 30% of Total Fixed Remuneration based on Key Indicators currently under review.
- An annual \$1,100 allowance for general health and wellbeing.
- Long Term Incentive plan, on the 10<sup>th</sup> of January 2013, 430,000 options were granted in accordance with Arafura's ESOP. Further details can be found at note 27.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to three months of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to six months of the base salary.

J Ganser, *General Manager of Projects*

- Fixed term 4 years commencing 13 September 2010.
- Base salary inclusive of superannuation for the year ended 30 June 2013 of \$370,000.
- Short-Term Incentive Bonus of 30% of Total Fixed Remuneration based on Key Indicators currently under review.
- An annual \$1,100 allowance for general health and wellbeing.
- Long Term Incentive plan, on the 10<sup>th</sup> of January 2013, 430,000 options were granted in accordance with Arafura's ESOP. Further details can be found at note 27.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to three months of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to three months of the base salary.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2013

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## 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 2010 annual general meeting and will be up for consideration at the 2013 AGM.

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
15-Jul-11	16-Jul-12	16-Jul-14	\$0.96	\$0.27	100%
15-Nov-11	31-Dec-12	13-Dec-14	\$0.81	\$0.19	100%
25-Nov-11	24-Nov-12	24-Nov-14	\$0.70	\$0.17	100%
10-Jan-13	31-Dec-13	31-Dec-15	\$0.23	\$0.07	0%
18-Jul-13	18-Jul-14	18-Jul-16	\$0.14	\$0.04	0%

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

The exercise price of the options issued during the 2013 financial year is based on a VWAP (volume weighted average price) plus 30% at which the company's shares are traded on the Australian Stock Exchange during the last 15 days up to and including the date of grant.

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



# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2013

## 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).

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 \$
<b>Directors of Arafura Resources Limited</b>					
I J Kowalick	-	-	-	-	-
S Lu	-	-	1,000,000	-	-
A Losada-Calderon	-	-	-	(1,500,000)	807,320
T Grose	-	-	-	-	-
C Tonkin	-	127,725	750,000	-	-
<b>Other key management personnel of the group</b>					
G J Lockyer	430,000	54,960	500,000	(500,000)	198,521
R Brescianini	430,000	54,960	350,000	-	-
N Graham	430,000	137,400	750,000	-	-
J Ganser	-	137,400	750,000	-	-

The assessed fair value at grant date of the options given to individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables in this report. Fair values at grant date are determined using the 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.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2013

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## **Remuneration report (audited) - (cont)**

The model inputs in determining the value for options granted during the year ended 30 June 2013 are contained in note 27 of the notes to the financial statements.

### *Shares provided on exercise of remuneration options*

No options were converted to shares by any Key Management Personnel during the 30 June 2013 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 2013, is detailed below:

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2013

## 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.
	%	%		%	%	Year	\$
I J Kowalick	-	-	2013	-	-	-	-
	-	-	2012	-	100	-	-
	-	-	2011	-	-	-	-
	-	-	2010	-	-	-	-
S Lu	-	-	2013	100	-	-	-
	-	-	2012	33	-	2013	68,587
	-	100	2011	-	-	-	-
	-	-	2010	-	-	-	-
A Losada-Calderon	-	-	2013	-	100	-	-
	-	-	2012	73	-	2013	27,435
	-	-	2011	-	-	2012	298,523
	-	-	2010	-	-	-	-
C Tonkin	-	-	2013	100	-	-	-
	-	-	2012	-	-	2013	51,440
T Grose	-	-	2013	-	-	-	-
R Brescianini	20	80	2013	71	-	2014	16,493
	-	100	2012	63	-	2013	2,396
	-	100	2011	-	-	2012	5,885
	-	-	2010	-	-	-	-
G J Lockyer	19	81	2013	74	29	2014	16,493
	-	100	2012	71	-	2013	2,396
	-	100	2011	-	-	2012	8,407
	100	-	2010	-	-	-	-
N Graham	18	82	2013	74	-	2014	16,493
	-	100	2012	60	-	2013	5,990
	-	100	2011	-	-	2012	46,117
J Ganser	16	84	2013	100	-	-	-
	-	100	2012	60	-	2013	5,990
	-	100	2011	-	-	2012	64,202

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2013

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## **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 2013.

**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.

# PROVISION OF AUDIT AND NON-AUDIT SERVICES

FOR THE YEAR ENDED 30 JUNE 2013

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## Non-audit services

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

The report prepared by BDO aimed to provide a conclusion to shareholders and other stakeholders as to the reasonableness of the transaction between ECE and Arafura. Costs involved for this process totalled \$50,590.

The Board is satisfied that the auditor is compatible with, and did not compromise, the auditor's independence requirements of the Corporations Act 2001 for the following reasons:

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

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

# AUDITOR'S INDEPENDENCE DECLARATION

FOR THE YEAR ENDED 30 JUNE 2013

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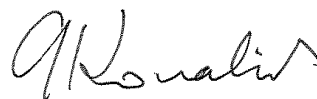
## Auditor's independence declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 45.

Signed in accordance with a resolution of the Directors.



**G. Lockyer**  
Managing Director and Chief Executive Officer



**I. Kowalick**  
Chairman

Perth, Western Australia  
23 September 2013



Tel: +8 6382 4600  
Fax: +8 6382 4601  
www.bdo.com.au

38 Station Street  
Subiaco, WA 6008  
PO Box 700 West Perth WA 6872  
Australia

23 September 2013

The Board of Directors  
Arafura Resources Limited  
Level 5, 16 St George's Terrace  
PERTH, WA 6000

Dear Sirs

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

As lead auditor of Arafura Resources Limited for the year ended 30 June 2013, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- 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.

A handwritten signature in blue ink, appearing to read 'Glyn O'Brien', is written over a light blue circular stamp.

**Glyn O'Brien**  
Director

**BDO Audit (WA) Pty Ltd**  
Perth, Western Australia

# CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2013

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## Approach to Corporate Governance

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

### Charters

Board

Audit Committee

Nomination Committee

Remuneration Committee

### Policies and Procedures

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

Process for Performance Evaluations

Policy on Assessing the Independence of Directors

Diversity Policy (summary)

Code of Conduct (summary)

Whistleblower Policy (summary)

Policy on Continuous Disclosure (summary)

Compliance Procedures (summary)

Procedure for the Selection, Appointment and Rotation of External Auditor

Shareholder Communication Policy

Risk Management Policy (summary)

The Company reports below on whether it has followed each of the recommendations during the 2012/2013 financial year (**Reporting Period**). The information in this statement is current at 23 September 2013.



# CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2013

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## Corporate Governance Statement (cont)

### Board

#### **Roles and responsibilities of the Board and Senior Executives (Recommendations: 1.1, 1.3 of the ASX Corporate Governance Council Principles and Recommendations 2nd edition)**

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

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

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

#### **Skills, experience, expertise and period of office of each Director (Recommendation: 2.6 of the ASX Corporate Governance Council Principles and Recommendations 2nd edition)**

A profile of each Director setting out their skills, experience, expertise and period of office is set out in the Directors' Report on page 21.

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

# CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2013

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## Corporate Governance Statement (cont)

### Director independence

**(Recommendations: 2.1, 2.2, 2.3, 2.6 of the ASX Corporate Governance Council Principles and Recommendations 2nd edition)**

The Board does not have a majority of Directors who are independent. The Company announced during the Reporting Period that the Board would be structured and expanded to accommodate the next growth phase in the development of the Nolans Project. During the Reporting Period, Mr Losada-Calderon, a non-independent Director resigned and the Board vacancy was filled by Mr Grose, an independent Director. This appointment gave the Board an equal number of independent and non-independent Directors. However, key to the Board structure was the appointment of a permanent Managing Director and Chief Executive Officer. This appointment was made on 17 July 2013, and accordingly the Board now comprises a majority of non-independent Directors. The Board acknowledges the importance of independent Directors, and has demonstrated its commitment to improving the balance of independence on the Board through the appointment of Mr Grose during the Reporting Period. The Board also notes that whilst Mr Tonkin is not an independent Director, as a consequence of being the Managing Director and Chief Executive Officer of the Company during the period 21 March 2012 to 17 July 2013, he is now a Non-Executive Director.

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

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

# CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2013

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## **Corporate Governance Statement (cont)**

The independent Directors of the Company are Ian Kowalick (Chairman) and Mr Grose (appointed 21 January 2013). These Directors are independent as they are Non-Executive Directors who are not members of management and who are free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgment.

The non-independent Directors of the Company are Chris Tonkin (Managing Director and Chief Executive Officer until 17 July 2013); Shasha Lu, Alex Losada-Calderon (resigned 30 November 2012) and Gavin Lockyer (appointed Managing Director and Chief Executive Officer on 17 July 2013).

The independent Chair of the Board is Ian Kowalick.

### **Independent professional advice**

**(Recommendation: 2.6 of the ASX Corporate Governance Council Principles and Recommendations 2nd edition)**

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

### **Selection and (Re)Appointment of Directors**

**(Recommendation: 2.6 of the ASX Corporate Governance Council Principles and Recommendations 2nd edition)**

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

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

# CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2013

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## Corporate Governance Statement (cont)

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

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

## Board Committees

### Nomination and Remuneration Committee

**(Recommendations: 2.4, 2.6, 8.1, 8.2, 8.3, 8.4 of the ASX Corporate Governance Council Principles and Recommendations 2nd edition)**

The Board had established a Nomination and Remuneration Committee comprising three Non-Executive Directors; Mr Losada-Calderon (Chair), Ms Lu and Mr Kowalick. The Nomination and Remuneration Committee was not structured in accordance with Recommendation 8.2 as it did not comprise a majority of independent Directors; Mr Kowalick being the only independent Director. However, the Nomination and Remuneration Committee was structured in accordance with Listing Rule 12.8 as it comprised solely Non-Executive Directors.

On 30 November 2012 when Mr Losada-Calderon resigned from the Board, the full Board assumed the responsibilities of the Nomination and Remuneration Committee. The Board (which at that stage comprised three members) believed that there would be no efficiencies gained by establishing a separate Nomination and Remuneration Committee. Items that were usually required to be discussed by a Nomination and Remuneration Committee were marked as separate agenda items at Board meetings when required, and the Board carried out those functions set out in the Company's Nomination Committee Charter and Remuneration Committee Charter. The Board dealt with any conflicts of interest that occurred by ensuring that the Director with conflicting interests was not party to the relevant discussions. During this period that the full Board assumed the responsibilities of a Nomination and Remuneration Committee, the Committee was not structured in accordance with Recommendation 8.2 or Listing Rule 12.8.

A Nomination and Remuneration Committee was re-established by the Board on 15 May 2013. The Nomination and Remuneration Committee comprises three Non-Executive Directors; Ian Kowalick (independent Chair), Shasha Lu (not independent) and Terry Grose (independent). Accordingly, since 15 May 2013 the Nomination and Remuneration Committee has been structured in accordance with Recommendation 8.2 and Listing Rule 12.8.

# CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2013

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## Corporate Governance Statement (cont)

During the Reporting Period, the Nomination and Remuneration Committee did not meet. Nor did the full Board in its capacity as the Nomination and Remuneration Committee. However, nomination and remuneration-related discussions occurred from time to time during the year as required.

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

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

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

- base pay and benefits;
- short-term performance incentives;
- long-term incentives through participation in the Arafura Resources Ltd Employee Share Option Plan, or otherwise at the discretion of the Board and subject to obtaining the relevant approvals. The grant of options is designed to recognise and reward efforts as well as to provide additional incentive and may be subject to the successful completion of performance hurdles; and
- other remuneration.

There are no termination or retirement benefits for Non-Executive Directors (other than for superannuation).

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

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

# CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2013

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## Corporate Governance Statement (cont)

### Audit and Risk Committee

**(Recommendations: 4.1, 4.2, 4.3, 4.4 of the ASX Corporate Governance Council Principles and Recommendations 2nd edition)**

The Board had established an Audit and Risk Committee comprising Mr Losada-Calderon (Chair), Mr Tonkin and Mr Kowalick. The Audit and Risk Committee was not structured in accordance with Recommendation 4.2 as it did not comprise a majority of independent Directors; Mr Kowalick being the only independent Director, it was chaired by Mr Kowalick who is also Chair of the Board and Mr Tonkin, an Executive Director, served on the Committee. The composition of the Board did not permit the Board to establish an Audit and Risk Committee structured in compliance with Recommendation 4.2.

On 30 November 2012 when Mr Losada-Calderon resigned from the Board, the full Board assumed the responsibilities of the Audit and Risk Committee. The Board (which at that stage comprised three members) believed that there would be no efficiencies gained by establishing a separate Audit and Risk Committee. Items that were usually required to be discussed by an Audit and Risk Committee were marked as separate agenda items at Board meetings when required, and the Board carried out those functions set out in the Company's Audit Committee Charter. The Board dealt with any conflicts of interest that occurred by ensuring that the Director with conflicting interests was not party to the relevant discussions. During this period that the full Board assumed the responsibilities of an Audit and Risk Committee, the Committee was not structured in accordance with Recommendation 4.2.

An Audit and Risk Committee was re-established by the Board on 15 May 2013. The Audit and Risk Committee comprises three Non-Executive Directors; Terry Grose (independent Chair), Shasha Lu (not independent) and Ian Kowalick (independent). Accordingly, since 15 May 2013 the Audit and Risk Committee has been structured in accordance with Recommendation 4.2.

The Audit and Risk Committee held two meetings during the Reporting Period. Details of Director attendance at Audit and Risk Committee meetings during the Reporting Period are set out in a table in the Directors' Report on page 27.

Each of the Audit and Risk Committee members consider themselves to be financially literate and to have experience in the industry in which the Company operates. Details of each of the Directors' qualifications are set out in the Directors' Report on page 21.

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

# CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2013

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## **Corporate Governance Statement (cont)**

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

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

## **Performance evaluation**

### **Senior executives**

**(Recommendations: 1.2, 1.3 of the ASX Corporate Governance Council Principles and Recommendations 2nd edition)**

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

During the Reporting Period, an evaluation of senior executives did not take place in accordance with the process disclosed above. Instead, during the Reporting Period the Company undertook an organisational review, which included addressing skills set, job descriptions and reviewing the capacity of its employees, including its senior executives. The Board intends to establish a formal process for evaluating the performance of its senior executives during the forthcoming reporting period, which will be disclosed on the Company's website once established.

### **Board, its Committees and individual Directors**

**(Recommendations: 2.5, 2.6 of the ASX Corporate Governance Council Principles and Recommendations 2nd edition)**

The Chair is responsible 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 and Chief Executive Officer.

The Company is in the process of developing a process for evaluating the performance of the Board, its Committees, individual Directors and the Managing Director and Chief Executive Officer, which will be disclosed on the Company's website once established. During the Reporting Period, an evaluation of the Board, its Committees, individual Directors and the Managing Director and Chief Executive Officer did not take place due to the changes to the

# CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2013

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## **Corporate Governance Statement (cont)**

composition of the Board, and a permanent Managing Director and Chief Executive Officer had not been appointed.

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

## **Ethical and responsible decision making**

### **Code of Conduct**

**(Recommendations: 3.1, 3.5 of the ASX Corporate Governance Council Principles and Recommendations 2nd edition)**

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

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

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

### **Diversity**

**(Recommendations: 3.2, 3.3, 3.4, 3.5 of the ASX Corporate Governance Council Principles and Recommendations 2nd edition)**

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

However, the Board has not set measurable objectives for achieving gender diversity. During the Reporting Period, the Board considered the establishment of measurable objectives for achieving gender diversity and decided that the size and nature of the Company's operations meant that establishing meaningful objectives was not practical at this stage. The Board will reconsider the establishment of measurable objectives for achieving gender diversity as its circumstances change. The Company provides equal opportunities in respect to employment and employment conditions, and refers to its Diversity Policy in relation to hiring, training and career advancement

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



# CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2013

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## Corporate Governance Statement (cont)

	Proportion of women
Employees in whole organisation	6 out of 19 or 32%
Senior executive positions	0 out of 5 or 0%
Board	1 out of 4 or 25%

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

### Continuous Disclosure

**(Recommendations: 5.1, 5.2 of the ASX Corporate Governance Council Principles and Recommendations 2nd edition)**

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

A summary of the Company's Policy on Continuous Disclosure and Compliance Procedures are disclosed on the Company's website.

### Shareholder Communication

**(Recommendations: 6.1, 6.2 of the ASX Corporate Governance Council Principles and Recommendations 2nd edition)**

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

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

### Risk Management

**Recommendations: 7.1, 7.2, 7.3, 7.4 of the ASX Corporate Governance Council Principles and Recommendations 2nd edition)**

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

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

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

# CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2013

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## Corporate Governance Statement (cont)

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

At every monthly Board Meeting, the Board requires Management to update and monitor its material business risks. Any areas of concern are brought to the Board's attention for review with a view to collectively mitigate/minimise any significant consequences on the Company and its stakeholders going forward.

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

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

The Company's management of its material business risks is based on a risk table prepared by management to identify the Company's material business risks and risk management strategies for those risks. Responsibility for the management of material business risks has also been allocated and management reports to the Board on material business risks on a monthly basis.

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

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

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

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

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2013

	Notes	2013 \$	2012 \$
Revenue from continuing operations	5	1,343,151	2,097,194
Non-capitalised portion of R&D tax incentive rebate	5	1,956,643	-
Other income	5	302,831	523,223
Employee benefits expense	6	(3,927,410)	(6,485,791)
Project feasibility and evaluation	6	-	(158,567)
Other expenses	6	(3,597,957)	(4,417,806)
Depreciation and amortisation	6	(119,344)	(181,951)
Finance costs	6	(1,534)	(2,958)
Impairment of assets	6	(7,718,528)	(68,266)
<b>Loss before income tax</b>		<b>(11,762,148)</b>	<b>(8,694,922)</b>
Income tax benefit	7	-	-
<b>Net (Loss) after income tax for the year</b>		<b>(11,762,148)</b>	<b>(8,694,922)</b>
<b>Other comprehensive income/(loss)</b> <i>Items that may be reclassified to profit or loss</i>			
Changes in the fair value on assets		-	(12,519)
<b>Other comprehensive (loss) for the year, net of tax</b>		<b>-</b>	<b>(12,519)</b>
<b>Total comprehensive (loss) for the year attributable to owners of Arafura Resources Limited</b>		<b>(11,762,148)</b>	<b>(8,707,441)</b>
		<b>Cents</b>	<b>Cents</b>
<b>Loss per share attributable to owners of Arafura Resources Limited</b>			
Basic loss per share	22	(2.8)	(2.3)
Diluted loss per share	22	(2.8)	(2.3)

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2013

	Notes	2013 \$	2012 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	8	32,183,321	19,545,603
Trade and other receivables	9	525,035	531,876
<b>Total Current Assets</b>		<b>32,708,356</b>	<b>20,077,479</b>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables		-	2,000,000
Property, plant and equipment	10	255,736	362,011
Deferred exploration, evaluation and development costs	11	111,037,558	125,475,008
<b>Total Non-Current Assets</b>		<b>111,293,294</b>	<b>127,837,019</b>
<b>TOTAL ASSETS</b>		<b>144,001,650</b>	<b>147,914,498</b>
<b>CURRENT LIABILITIES</b>			
Borrowings	12	16,031	9,260
Trade and other payables	13	2,025,555	4,760,636
Provisions	14	786,845	234,206
<b>Total Current Liabilities</b>		<b>2,828,431</b>	<b>5,004,102</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	12	-	16,030
Provisions	14	112,117	64,259
<b>Total Non-Current Liabilities</b>		<b>112,117</b>	<b>80,289</b>
<b>TOTAL LIABILITIES</b>		<b>2,940,548</b>	<b>5,084,391</b>
<b>NET ASSETS</b>		<b>141,061,102</b>	<b>142,830,107</b>
<b>EQUITY</b>			
Contributed equity	15	194,128,196	184,363,890
Reserves	16	11,182,015	10,953,178
Accumulated losses	17	(64,249,109)	(52,486,961)
<b>TOTAL EQUITY</b>		<b>141,061,102</b>	<b>142,830,107</b>

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

AS AT 30 JUNE 2013

Consolidated	Notes	Contributed equity \$	Equity reserve \$	Revaluation reserve \$	Accumulated losses \$	Total equity \$
<b>Balance at 30 June 2011</b>		<b>176,163,635</b>	<b>9,863,967</b>	<b>12,519</b>	<b>(43,792,039)</b>	<b>142,248,082</b>
Loss for the 2012 financial year	17	-	-	-	(8,694,922)	(8,694,922)
Other comprehensive income		-	-	(12,519)	-	(12,519)
<b>Total Comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>(12,519)</b>	<b>(8,694,922)</b>	<b>(8,707,441)</b>
<b>Transactions with owners in their capacity as owners</b>						
Contributions of equity, net of transaction costs and tax	15	8,200,255	-	-	-	8,200,255
Employee share options – value of employee services	16	-	1,089,211	-	-	1,089,211
		8,200,255	1,089,211	-	-	9,289,466
<b>Balance at 30 June 2012</b>		<b>184,363,890</b>	<b>10,953,178</b>	<b>-</b>	<b>(52,486,961)</b>	<b>142,830,107</b>
Loss for the 2013 financial year	17	-	-	-	(11,762,148)	(11,762,148)
Other comprehensive income		-	-	-	-	-
<b>Total Comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>(11,762,148)</b>	<b>(11,762,148)</b>
<b>Transactions with owners in their capacity as owners</b>						
Contributions of equity, net of transaction costs and tax	15	9,764,306	-	-	-	9,764,306
Employee share options – value of employee services	16	-	228,837	-	-	228,837
		9,764,306	228,837	-	-	9,993,143
<b>Balance at 30 June 2013</b>		<b>194,128,196</b>	<b>11,182,015</b>	<b>-</b>	<b>(64,249,109)</b>	<b>141,061,102</b>

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 2013

		2013	2012
Notes		\$	\$
<b>Cash flows from operating activities</b>			
Payments to suppliers and employees		(7,359,467)	(9,908,322)
Interest received		1,248,168	3,131,986
R&D incentive rebate – non-capitalised portion		1,956,643	-
Other revenue		-	15,194
Interest paid		(4,383)	-
<b>Net cash (outflow) from operating activities</b>	<b>18</b>	<b>(4,159,039)</b>	<b>(6,761,142)</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(3,053,429)	(71,135)
Payments for exploration and evaluation		(10,556,339)	(53,086,741)
Proceeds from sale of available-for-sale financial assets		-	849,729
R&D incentive rebate – capitalised portion		20,581,103	-
Proceeds from the sale of recognised evaluation assets		-	154,424
<b>Net cash (outflow) from investing activities</b>		<b>6,971,335</b>	<b>(52,153,723)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	15	9,764,306	8,200,255
Repayments of finance lease		(9,258)	-
<b>Net cash inflow from financing activities</b>		<b>9,755,048</b>	<b>8,200,255</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>12,567,344</b>	<b>(50,714,610)</b>
Cash at the beginning of the financial year		19,545,603	70,223,566
Effects of exchange rate changes on cash and cash equivalents		70,374	36,647
<b>Cash and cash equivalents at the end of the financial year</b>	<b>8</b>	<b>32,183,321</b>	<b>19,545,603</b>

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 2013

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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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## **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 2012.

#### *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.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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## **Note 1: Summary of significant accounting policies (cont)**

### **(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 2013 and the results of all controlled entities for the year then ended. Arafura Resources Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights which are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

All inter-company balances and transactions between entities in the economic entity have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

#### *(ii) Joint ventures*

The proportionate interests in the assets, liabilities and expense of a joint venture activity have been incorporated in the financial statements under the appropriate headings. Details of the joint venture are set out in note 25.

### **(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 FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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## **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.

### **(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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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## **Note 1: Summary of significant accounting policies (cont)**

### **(h) Non-current assets held for sale**

Non-current assets (or disposal Groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. Assets are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal Group) to fair value less costs to sell. A gain is recognised for any subsequent increase in fair value less costs to sell of an asset (or disposal Group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal Group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal Group) are not depreciated or amortised while classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal Group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal Group classified as held for sale are presented separately from the other assets in the statement of financial position. The liabilities of a disposal Group classified as held for sale are presented separately from other liabilities in the statement of financial position.

### **(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.

#### *(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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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## **Note 1: Summary of significant accounting policies (cont)**

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 FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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## **Note 1: Summary of significant accounting policies (cont)**

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of profit or loss and other comprehensive income.

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

### **(k) Exploration, evaluation and development costs**

#### *(i) Exploration*

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

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

#### *(ii) Evaluation*

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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## **Note 1: Summary of significant accounting policies (cont)**

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

### *(iii) Development*

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

### **(l) Interest bearing loans and borrowings**

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

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

### **(m) Leased assets**

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

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in current liabilities. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the statement of profit or loss and other comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under the finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases are charged to the statement of profit or loss and other comprehensive income on a straight line basis over the lease period.

### **(n) Fair value estimation**

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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## **Note 1: Summary of significant accounting policies (cont)**

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

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

### **(o) Impairment of assets**

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

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

### **(p) Employee benefits**

Provision is made for the Group's liability for employee benefits arising from services rendered by employees up to the reporting date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than 12 months are not discounted if the effect of discounting is immaterial. The amount for the provision is recognised in the statement of financial position.

Share-based compensation benefits are provided to employees via the Arafura Resources Limited Employee Share Option Plan. Employee benefits received under this plan are accounted for as an option under *AASB2: Share-based Payments*. Information in relation to the scheme is set out in note 27.

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



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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## **Note 1: Summary of significant accounting policies (cont)**

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

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

### **(q) Provisions**

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

### **(r) Revenue recognition**

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

Interest revenue is recognised as earned.

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

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

### **(s) Goods and services tax (GST)**

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

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

### **(t) Contributed equity**

Ordinary shares are classified as equity.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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## **Note 1: Summary of significant accounting policies (cont)**

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

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

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

### **(u) Segment reporting**

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

### **(v) Share-based Payments**

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

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

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

### **(w) Foreign currency translation**

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

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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## **Note 1: Summary of significant accounting policies (cont)**

### **(x) R&D Incentive Rebate**

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

### **(y) Earnings per share**

#### *(i) Basic earnings per share*

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

#### *(ii) Diluted earnings per share*

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

### **(z) Accounting Standards Issued Not Yet Effective**

The following new/amended accounting standards and interpretations have been issued, but are not mandatory for financial years ended 30 June 2013. They have not been adopted in preparing the financial statements for the year ended 30 June 2013 and are expected to impact the entity in the period of initial application. In all cases the entity intends to apply these standards from application date as indicated below.

#### **STANDARDS LIKELY TO HAVE A FINANCIAL IMPACT**

- i) AASB 9 (issued December 2009 and amended December 2010) - Financial Instruments*

##### *Application date:*

Annual reporting periods beginning on or after 1 January 2015.

##### *Nature of change:*

Amends the requirements for classification and measurement of financial assets. The available-for-sale and held-to-maturity categories of financial assets in AASB 139 have been eliminated. Under AASB 9, there are three categories of financial assets:

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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## Note 1: Summary of significant accounting policies (cont)

- Amortised cost
- Fair value through profit or loss
- Fair value through other comprehensive income.

The following requirements have generally been carried forward unchanged from AASB 139 Financial Instruments: Recognition and Measurement into AASB 9:

- Classification and measurement of financial liabilities; and
- Derecognition requirements for financial assets and liabilities.

However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income.

### *Impact on initial application:*

Adoption of AASB 9 is only mandatory for the year ending 30 June 2016. The entity has not yet made an assessment of the impact of these amendments.

### *ii) AASB 10 (issued August 2011) - Consolidated Financial Statements*

#### *Application date:*

Annual reporting periods beginning on or after 1 January 2013.

#### *Nature of change:*

Introduces a single 'control model' for all entities, including special purpose entities (SPEs), whereby all of the following conditions must be present:

- Power over investee (whether or not power used in practice)
- Exposure, or rights, to variable returns from investee
- Ability to use power over investee to affect the entity's returns from investee.

#### *Impact on initial application:*

When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements because the entity does not have any special purpose entities or because the new definition of control does not change the classification of any of the entities investments in subsidiaries, joint arrangements or associates.

### *iii) AASB 11 (issued August 2011) - Joint Arrangements*

#### *Application date:*

Annual reporting periods beginning on or after 1 January 2013.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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## **Note 1: Summary of significant accounting policies (cont)**

### *Nature of change:*

Joint arrangements will be classified as either 'joint operations' (where parties with joint control have rights to assets and obligations for liabilities) or 'joint ventures' (where parties with joint control have rights to the net assets of the arrangement).

Joint arrangements structured as a separate vehicle will generally be treated as joint ventures and accounted for using the equity method (proportionate consolidation no longer allowed).

However, where terms of the contractual arrangement, or other facts and circumstances indicate that the parties have rights to assets and obligations for liabilities of the arrangement, rather than rights to net assets, the arrangement will be treated as a joint operation and joint venture parties will account for the assets, liabilities, revenues and expenses in accordance with the contract.

### *Impact on initial application:*

When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements because the entity has not entered into any joint arrangements.

#### *iv) AASB 13 (issued September 2011) – Fair Value Measurement*

### *Application date:*

Annual reporting periods beginning on or after 1 January 2013.

### *Nature of change:*

Currently, fair value measurement requirements are included in several Accounting Standards. AASB 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value in the statement of financial position or disclosed in the notes in the financial statements.

### *Impact on initial application:*

The entity has yet to conduct a detailed analysis of the differences between the current fair valuation methodologies used and those required by AASB 13. However, when this standard is adopted for the first time for the year ended 30 June 2014, there will be no impact on the financial statements because the revised fair value measurement requirements apply prospectively from 1 July 2013.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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## Note 1: Summary of significant accounting policies (cont)

### v) AASB 13 (issued September 2011) – Fair Value Measurement

#### *Application date:*

Annual reporting periods beginning on or after 1 January 2013.

#### *Nature of change:*

Additional disclosures required for items measured at fair value in the statement of financial position, as well as items merely disclosed at fair value in the notes to the financial statements. Extensive additional disclosure requirements for items measured at fair value that are 'level 3' valuations in the fair value hierarchy that are not financial instruments, e.g. land and buildings, investment properties etc.

#### *Impact on initial application:*

When this standard is adopted for the first time for the year ended 30 June 2014, additional disclosures will be required about fair values.

### vi) AASB 119 (reissued September 2011) – Employee Benefits

#### *Application date:*

Annual reporting periods beginning on or after 1 January 2013.

#### *Nature of change:*

Main changes include:

- Elimination of the 'corridor' approach for deferring gains/losses for defined benefit plans
- Actuarial gains/losses on remeasuring the defined benefit plan obligation/asset to be recognised in OCI rather than in profit or loss, and cannot be reclassified in subsequent periods
- Subtle amendments to timing for recognition of liabilities for termination benefits
- Employee benefits expected to be settled (as opposed to due to settled under current standard) wholly within 12 months after the end of the reporting period are short-term benefits, and therefore not discounted when calculating leave liabilities. Annual leave not expected to be used wholly within 12 months of end of reporting period will in future be discounted when calculating leave liability.

#### *Impact on initial application:*

The entity currently calculates its liability for annual leave employee benefits on the basis that it is due to be settled within 12 months of the end of the reporting period because employees are entitled to use this leave at any time. The amendments to AASB 119 require that such liabilities be calculated on the basis of when the leave is expected to be taken, i.e. expected settlement.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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## Note 1: Summary of significant accounting policies (cont)

When this standard is first adopted for the 30 June 2014 year end, annual leave liabilities will be recalculated on 1 July 2012 as long-term benefits because they are not expected to be settled wholly within 12 months after the end of the reporting period. This will result in a reduction of the annual leave liabilities recognised on 1 July 2012, and a corresponding increase in retained earnings at that date.

- vii) Interpretation 20 (issued November 2011) - Stripping Costs in the Production Phase of a Surface Mine

### *Application date:*

Annual reporting periods beginning on or after 1 January 2013.

### *Nature of change:*

Clarifies that costs of removing mine waste materials (overburden) to gain access to mineral ore deposits during the production phase of a mine must be capitalised as inventories under AASB 102 Inventories if the benefits from stripping activity is realised in the form of inventory produced. Otherwise, if stripping activity provides improved access to the ore, stripping costs must be capitalised as a non-current, stripping activity asset if certain recognition criteria are met (as an addition to, or enhancement of, an existing asset).

### *Impact on initial application:*

The entity does not operate a surface mine. There will therefore be no impact on the financial statements when this interpretation is first adopted.

- viii) AASB 2012-5 (issued June 2012) - Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle

### *Application date:*

Annual reporting periods beginning on or after 1 January 2013.

### *Nature of change:*

Non-urgent but necessary changes to standards

### *Impact on initial application:*

There will be no impact when this amendment is first adopted as the entity only includes comparatives for the preceding period.

- ix) AASB 2012-9 (issued December 2012) - Amendment to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039

### *Application date:*

Annual reporting periods beginning on or after 1 January 2013.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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## **Note 1: Summary of significant accounting policies (cont)**

### *Nature of change:*

Deletes Australian Interpretation 1039 Substantive Enactment of Major Tax Bills In Australia from the list of mandatory Australian Interpretations to be applied by entities preparing financial statements under the Corporations Act 2001 or other general purpose financial statements.

### *Impact on initial application:*

There will be no impact on first-time adoption of this amendment as the group does not account for proposed changes in taxation legislation until the relevant Bill has passed through both Houses of Parliament, which is consistent with the views expressed by the Australian Accounting Standards Board in their agenda decision of December 2012.

## **STANDARDS LIKELY TO HAVE A DISCLOSURE IMPACT ONLY**

- x) *AASB 12 (issued August 2011) – Disclosure of Interests in Other Entities*

### *Application date:*

Annual reporting periods beginning on or after 1 January 2013.

### *Nature of change:*

Combines existing disclosures from AASB 127 Consolidated and Separate Financial Statements, AASB 128 Investments in Associates and AASB 131 Interests in Joint Ventures. Introduces new disclosure requirements for interests in associates and joint arrangements, as well as new requirements for unconsolidated structured entities.

### *Impact on initial application:*

As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, additional disclosures will be required for interests in associates and joint arrangements, as well as for unconsolidated structured entities.

- xi) *AASB 2012-6 (issued September 2012) - Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures*

### *Application date:*

Annual reporting periods beginning on or after 1 January 2015.

### *Nature of change:*

Defers the effective date of AASB 9 to 1 January 2015. Entities are no longer required to restate comparatives on first time adoption. Instead, additional disclosures on the effects of transition are required.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## Note 1: Summary of significant accounting policies (cont)

### *Impact on initial application:*

As comparatives are no longer required to be restated, there will be no impact on amounts recognised in the financial statements. However, additional disclosures will be required on transition, including the quantitative effects of reclassifying financial assets on transition.

## 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:

	2013	2012
	\$	\$
<b>Financial assets</b>		
Cash and cash equivalents	32,183,321	19,545,603
Trade and other receivables	525,035	2,531,876
	<b>32,708,356</b>	<b>22,077,479</b>
<b>Financial liabilities</b>		
Trade creditors	928,978	2,161,917
Trade and other accruals	981,789	2,477,510
PAYG and payroll tax liabilities	114,788	121,209
Current and Non-current borrowings	16,031	25,291
	<b>2,041,586</b>	<b>4,785,927</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## Note 2: Financial risk management (cont)

### (a) Market risk

#### (i) Foreign exchange risk

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

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

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

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

	2013 USD	2012 USD
Cash at bank	708,264	731,873
Trade Payables	-	22,745

#### (ii) Group sensitivity

Based on the financial instruments held at 30 June 2013, 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 \$76,363 or an increased loss in reported Group post tax losses of \$69,421.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## Note 2: Financial risk management (cont)

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 2013, Arafura had no such investments.

### (iv) Cash flow and fair value interest rate risk

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

### (v) Group sensitivity

At 30 June 2013, 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 \$225,275 lower/(\$320,670 higher) (2012 – change of 70/100 bps: \$136,811 lower/(\$325,008 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:

2013	2012
\$	\$

### Cash at bank and short-term bank deposits

Standard & Poor's rating AA-

32,183,321	19,545,603
32,183,321	19,545,603

## (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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## Note 2: Financial risk management (cont)

### Financing arrangements

The Group has no financing arrangements as at the reporting date.

### Maturities of financial liabilities

The table below illustrates the Group's financial liabilities at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group – At 30 June 2013	Less than 6 months	6 – 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amounts of (assets)/liabilities
	\$	\$	\$	\$	\$	\$	\$

#### Non-derivatives

Non-interest bearing	2,025,555	-	-	-	-	2,025,555	2,025,555
Fixed rate	4,261	11,770	-	-	-	16,031	(8,893)
<b>Total non-derivatives</b>	<b>2,029,816</b>	<b>11,770</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,041,586</b>	<b>2,016,662</b>

Group – At 30 June 2012	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	4,760,633	-	-	-	-	4,760,633	4,760,633
Fixed rate	4,459	4,800	16,030	-	-	25,289	(20,613)
<b>Total non-derivatives</b>	<b>4,765,092</b>	<b>4,800</b>	<b>16,030</b>	<b>-</b>	<b>-</b>	<b>4,785,922</b>	<b>4,740,020</b>

### (d) Fair value estimation

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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## **Note 2: Financial risk management (cont)**

As of 1 July 2009, Arafura Resources Limited adopted the amendment to AASB7 *Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price.

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

## **Note 3: Critical accounting estimates and judgments**

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

### **(a) Critical accounting estimates and assumptions**

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

#### *(i) Continued recognition of mining, evaluation and development expenditure*

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

#### *(ii) Employee Share Option Plan*

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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## **Note 3: Critical accounting estimates and judgments (cont)**

### *(iii) Income taxes*

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

Under the Industry Research and Development Act 1986, for the income year 2012/13 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 has not yet prepared the claim for expenditure on the eligible registered R&D activities for the 2013 financial year.

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

### *(i) Impairment of available-for-sale financial assets*

The Group follows the guidance of *AASB139 Financial Instruments: Recognition and Measurement* in determining when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost.

If a decline in fair value below cost was considered significant or prolonged, the Group and the parent entity would transfer the accumulated fair value adjustments in equity on the impaired available-for-sale financial asset to the profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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## Note 4: Segment information

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

### (a) Description of segments

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

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

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

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## 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 2013 is as follows:

<b>CONSOLIDATED</b>		<b>Project evaluation</b>	<b>Exploration</b>	<b>Corporate</b>	<b>Total</b>
<b>2013</b>					
Segment revenue		20,581,104	-	3,299,795	23,880,899
Segment expenditure		(13,144,142)	(648,251)	(7,296,531)	(21,088,924)
Inter-segment expenditure		-	-	-	-
		7,436,962	(648,251)	(3,996,736)	2,791,975
<b>Adjusted EBITDA</b>		-	-	<b>(3,996,736)</b>	<b>(3,996,736)</b>
Capitalised expenditure		7,436,962	(648,251)	-	6,788,711
		7,436,962	(648,251)	(3,996,736)	2,791,975
<b>2012</b>					
Segment revenue		153,746	-	2,247,870	2,401,616
Segment expenditure		(46,400,024)	(773,860)	(9,814,385)	(56,988,269)
Inter-segment expenditure		-	-	-	-
		(46,246,278)	(773,860)	(7,566,515)	(54,586,653)
<b>Adjusted EBITDA</b>		<b>(158,567)</b>	-	<b>(7,566,515)</b>	<b>(7,725,082)</b>
Capitalised expenditure		(46,087,711)	(773,860)	-	(46,861,571)
		(46,246,278)	(773,860)	(7,566,515)	(54,586,653)
<b>Total segment assets</b>					
	2013	96,618,017	14,428,434	32,955,199	144,001,650
	2012	113,762,578	13,712,430	20,439,490	147,914,498
<b>Total segment liabilities</b>					
	2013	2,073,152	38,866	828,530	2,940,548
	2012	3,280,615	680,226	1,123,550	5,084,391



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## Note 4: Segment information (cont)

Reconciliation of adjusted EBITDA to operating profit before income tax:

	2013	2012
<b>Adjusted EBITDA</b>	<b>(3,996,736)</b>	<b>(7,725,082)</b>
Finance Costs	(1,534)	(2,958)
Depreciation & amortisation	(119,344)	(181,951)
Share option expense	(228,837)	(1,089,211)
Gain/(Loss) on disposal of assets	-	182,153
Income accrued from Demonstration Plant reimbursement	232,454	153,746
Impairment on assets	(7,718,528)	(68,266)
Unrealised exchange rate (loss)/gain	70,377	36,647
<b>Loss before income tax</b>	<b>(11,762,148)</b>	<b>(8,694,922)</b>

## Note 5: Revenue

	2013 \$	2012 \$
<b>Revenue from continuing operations</b>		
<i>Other revenue</i>		
Interest received	1,343,151	2,097,194
	<b>1,343,151</b>	<b>2,097,194</b>
<b>Other Income</b>		
Foreign exchange gain/(loss)	70,377	36,647
Profit/(loss) Available for Sale Investments	-	182,153
Non-capitalised portion of R&D Tax Incentive rebate	1,956,643	-
Other	232,454	304,423
	<b>2,259,474</b>	<b>523,223</b>
	<b>3,602,625</b>	<b>2,620,417</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## Note 6: Expenses

	2013 \$	2012 \$
<b>(a) Expenses</b>		
<b>Depreciation</b>		
Depreciation – plant & equipment	87,445	148,757
Depreciation – motor vehicles	11,720	15,605
Depreciation – leasehold improvements	20,179	17,589
Total depreciation	<u>119,344</u>	<u>181,951</u>
<b>Finance costs</b>		
Interest expense	1,534	2,958
Total finance costs	<u>1,534</u>	<u>2,958</u>
<b>Other expenses</b>		
Accounting and other professional fees	179,268	147,574
Audit fees	70,000	90,779
Consultants fees	839,061	1,023,485
Employee benefits expense	3,698,573	5,396,580
Insurance	102,609	98,392
Legal fees	388,246	587,155
Promotion expenses	-	15,158
Share-based employee benefits	228,837	1,089,211
Share registry and stock listing fees	68,375	224,453
Other expenses	1,950,398	2,230,810
Total other expenses	<u>7,525,367</u>	<u>10,903,597</u>
<b>Development expenses</b>		
Pilot plant	-	158,567
Total development expenses	<u>-</u>	<u>158,567</u>
<b>Impairment of assets</b>		
Capitalised exploration expenditure	29,430	9,259
Available for sale assets	-	59,007
Capitalised EIS Costs - Whyalla	2,648,739	-
Non recoverable deposits on Whyalla Land Purchase	5,000,000	-
Capitalised Whyalla land acquisition costs	40,359	-
Total impairment of assets	<u>7,718,528</u>	<u>68,266</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## Note 7: Income tax

	2013	2012
	\$	\$
<b>(a) Income tax expense</b>		
Current tax	-	-
<b>(b) Operating loss before income tax expense</b>	<b>(11,762,148)</b>	<b>(8,694,922)</b>
Tax at the Australian tax rate of 30% (2012: 30%)	<b>(3,517,844)</b>	<b>(2,608,477)</b>
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
• Entertainment	<b>3,774</b>	2,715
• Share-based payments	<b>68,651</b>	326,763
• Sundry items not deductible (assessable)	<b>(609,193)</b>	15,025,164
• Donations	<b>2,062</b>	2,669
• Deferred tax assets relating to tax losses and temporary differences not recognised	<b>8,188,598</b>	3,199,473
Temporary differences not recognised	<b>(4,136,048)</b>	<b>(15,948,307)</b>
<b>Income tax benefit</b>	<b>-</b>	<b>-</b>
<b>(c) Deferred tax assets and liabilities not recognised relate to the following:</b>		
<i>Deferred tax assets</i>		
Tax losses	<b>49,850,482</b>	41,661,884
Other temporary differences	<b>702,393</b>	1,947,169
<i>Deferred tax liabilities</i>		
Other temporary differences	<b>(33,311,268)</b>	<b>(37,642,502)</b>
Net deferred tax assets	<b>17,241,607</b>	5,966,551
R&D Tax Incentive Rebate	<b>-</b>	<b>22,537,747</b>

The franking account balance at year end was \$nil (2012: \$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 year rebate claim for Research and Development (R&D) and as such has not recognised any amount in the financial statements for the 30 June 2013 period.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## Note 8: Current assets – Cash and cash equivalents

	2013	2012
	\$	\$
Cash at bank and in hand	3,878,951	6,470,603
Bank deposits	28,304,370	13,075,000
	<b>32,183,321</b>	<b>19,545,603</b>

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

### Reconciliation to cash at the end of the year

Balances as above	32,183,321	19,545,603
Balances as per statements of cash flows	<b>32,183,321</b>	<b>19,545,603</b>

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

## Note 9: Current assets – Trade and other receivables

	2013	2012
	\$	\$
Sundry debtors	161,205	58,767
Security bonds	161,053	161,053
Goods & services tax paid	174,630	284,410
Other receivables	28,147	27,646
	<b>525,035</b>	<b>531,876</b>

### (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 FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## 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	\$	\$	\$	\$	\$	\$
<b>At 30 June 2011</b>						
Cost or fair value	85,702	761,462	70,469	203,308	216,245	1,337,186
Accumulated depreciation	(29,482)	(545,669)	(54,463)	(167,088)	(41,564)	(838,266)
Net book amount	56,220	215,793	16,006	36,220	174,681	498,920
<b>Year ended 30 June 2012</b>						
Opening book amount	56,220	215,793	16,006	36,220	174,681	498,920
Additions	8,355	12,655	24,032	-	-	45,042
Disposals	-	-	-	-	-	-
Transfers between classes	-	-	-	-	-	-
Depreciation charge	(9,267)	(128,045)	(11,445)	(15,605)	(17,589)	(181,951)
Depreciation charge capitalised	-	-	-	-	-	-
Closing book amount	55,308	100,403	28,593	20,615	157,092	362,011
<b>At 30 June 2012</b>						
Cost or fair value	94,057	774,117	94,501	203,308	216,245	1,382,228
Accumulated depreciation	(38,749)	(673,714)	(65,908)	(182,693)	(59,153)	(1,020,217)
Net book amount	55,308	100,403	28,593	20,615	157,092	362,011
<b>Year Ended 30 June 2013</b>						
Opening book amount	55,308	100,403	28,593	20,615	157,092	362,011
Additions	-	16,613	5,415	-	31,400	53,428
Disposals	-	-	-	-	-	-
Impairments	-	-	-	-	(40,359)	(40,359)
Transfers between classes	-	-	-	-	-	-
Depreciation charge	(9,789)	(65,832)	(11,824)	(11,720)	(20,179)	(119,344)
Depreciation charge capitalised	-	-	-	-	-	-
Closing book amount	45,519	51,184	22,184	8,895	127,954	255,736
<b>At 30 June 2013</b>						
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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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

2013	2012
\$	\$

### Exploration, evaluation and development costs carried forward

Balance at beginning of year	<b>125,475,008</b>	77,837,834
Capitalised exploration expenditure	<b>677,681</b>	773,860
Capitalised evaluation expenditure <sup>(a)</sup>	<b>13,144,142</b>	46,115,621
Impairment of exploration expenditure	<b>(29,430)</b>	(9,259)
Impairment of non recoverable deposits - Whyalla land purchase	<b>(5,000,000)</b>	-
Impairment of capitalised EIS costs - Whyalla	<b>(2,648,739)</b>	-
R&D Tax Incentive rebate receipted against capitalised evaluation costs	<b>(20,581,104)</b>	-
Transfer (to)/from assets held for sale	-	756,952
Balance at end of year	<b>111,037,558</b>	125,475,008

(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 FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## Note 12: Current and non-current liabilities – Borrowings

	2013 \$	2012 \$
<i>Current interest bearing liability</i>		
• Finance leases due within 1 year	16,296	10,795
<i>Non-current interest bearing liability</i>		
• Finance leases due later than 1 year but within 5 years		
	-	16,295
Minimum lease payments	16,296	27,090
Future finance charges recognised as a liability	(265)	(1,800)
Total lease liability	16,031	25,290
Representing interest bearing liabilities		
<i>Current</i>		
Interest bearing liabilities	16,031	9,260
<i>Non-current</i>		
Interest bearing liabilities	-	16,030
	16,031	25,290

### (a) Guarantees

The security for the above are motor vehicle assets under finance leases.

### (b) Risk exposures

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## Note 13: Current liabilities – Trade and other payables

	2013 \$	2012 \$
<i>Current</i>		
Trade creditors <sup>(a)</sup>	928,978	2,161,917
Trade and other accruals	981,789	2,477,510
PAYG and payroll tax liabilities	114,788	121,209
	<b>2,025,555</b>	<b>4,760,636</b>

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

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

## Note 14: Current and non-current liabilities - Provisions

	2013 \$	2012 \$
<i>Current</i>		
Provision for annual leave <sup>(a)</sup>	183,931	234,206
Provision – Demonstration plant and liquids <sup>(b)</sup>	602,914	-
	<b>786,845</b>	<b>234,206</b>
<i>Non-current</i>		
Provision for long service leave	112,117	64,259
	<b>112,117</b>	<b>64,259</b>

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

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

	2013 \$	2012 \$
Leave obligations expected to be settled after 12 months	<b>82,769</b>	<b>105,393</b>



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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

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

## Note 15: Equity – Contributed equity

2013 Shares	2012 Shares	2013 \$	2012 \$
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### Share capital

Ordinary shares

- Fully paid

2013	2012	2013	2012
441,270,644	396,004,144	194,128,196	184,363,890

### (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-11	Balance	367,980,342		176,163,635
22-Mar-12	Share Purchase Plan (SPP)	28,023,802	\$0.29	8,238,998
22-Mar-12	SPP Transaction Costs			(38,743)
30-Jun-12	Balance	396,004,144		184,363,890
21-Nov-12	Private Placement	45,266,500	\$0.22	9,958,630
21-Nov-12	Private Placement Transaction Costs			(194,324)
30-Jun-13	Balance	441,270,644		194,128,196

#### (i) Placements made to existing Arafura shareholders

On the 22<sup>nd</sup> of March 2012, Arafura issued 28,023,802 fully paid ordinary shares at \$0.29 to existing shareholders via a Share Purchase Plan. Funds from the capital raising were/are being used to progress the Nolan's Project.

#### (ii) Placement made to ECE Nolans

On the 21st of November 2013, Arafura announced the settlement of the share subscription agreement between Arafura and major shareholder ECE Nolans Investment Pty Ltd. As part of the agreement, Arafura issued 45,266,500 fully paid ordinary shares at \$0.22 per share equating to a 29% premium over the Company's last trading day's closing price. Funds received were to aid in the progression of the Nolans Project, towards a financing decision.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## Note 15: Equity – Contributed equity

### (iii) 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.

		2013	2012
	Notes	\$	\$
Total payables	13 & 14	2,812,400	4,994,842
Borrowings	12	16,031	9,260
Less: cash and cash equivalents	8	(32,183,321)	(19,545,603)
Net debt		(29,354,890)	(14,541,501)
Total equity		141,061,102	142,830,107
Total capital		111,706,212	128,288,606
<b>Gearing Ratio</b>		<b>(26%)</b>	<b>(11%)</b>

The increase in the 2013 gearing ratio has been primarily driven by increased cash reserves which were primarily offset against previously capitalised expenditure as a result of the R&D Incentive rebate.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## Note 16: Equity – Reserves

	2013	2012
	\$	\$
<b>Reserves</b>		
Share-based payments reserve	11,182,015	10,953,178
	<u>11,182,015</u>	<u>10,953,178</u>
<b>Movements</b>		
<i>Share-based payments reserve</i>		
Balance 1 July 2012	10,953,178	9,863,967
Option expense	228,837	1,089,211
Balance 30 June 2013	<u>11,182,015</u>	<u>10,953,178</u>

### (a) Nature and purpose of reserves

#### (i) *Share-based payments reserve*

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## Note 17: Equity – Accumulated losses

	2013 \$	2012 \$
Balance 1 July 2012	(52,486,961)	(43,792,039)
Net loss for the year	(11,762,148)	(8,694,922)
Balance 30 June 2013	<u>(64,249,109)</u>	<u>(52,486,961)</u>

## Note 18: Statement of cash flows reconciliation

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

	2013 \$	2012 \$
Net (loss)	<u>(11,762,148)</u>	<u>(8,694,922)</u>
Depreciation and amortisation	119,344	181,950
Impairment on assets	7,718,528	68,266
Intercompany salary re-charge	-	(79,118)
Other Income	(225,000)	(304,424)
Loss/(gain) on disposal and/or sale of non-current assets	-	(182,153)
Unrealised FX (loss)/gain	(70,376)	(36,647)
Share-based employee benefits	228,837	1,089,211
Payment for government bonds	-	(119,962)
Pilot plant costs expensed	-	158,567
(Increase)/decrease in trade & other receivables	6,840	1,049,989
Increase/(decrease) in trade & other payables	(172,646)	265,022
Increase/(decrease) in other provisions	(2,418)	(156,921)
Net cash (outflow) from operating activities	<u>(4,159,039)</u>	<u>(6,761,142)</u>

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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## Note 19: Key management personnel disclosures

### (a) Directors

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

(i) *Chairman – Non-Executive*

I. Kowalick

(ii) *Non-Executive Directors*

S. Lu

T. Grose<sup>(1)</sup>

A. Losada-Calderon<sup>(2)</sup>

C. Tonkin<sup>(3)</sup>

(1) Mr. Terry Grose was appointed as a Non-Executive Director on the 21<sup>st</sup> of January 2013.

(2) Mr. Alex Losada-Calderon stepped down from his position of Non-Executive Director on the 30<sup>th</sup> of November 2012.

(3) Mr. Gavin Lockyer was appointed Managing Director and Chief Executive Officer on the 23<sup>rd</sup> of July 2013, replacing Chris Tonkin, who now acts solely in his capacity as Non-Executive Director.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## Note 19: Key management personnel disclosures (cont)

### (b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

- R Brescianini – *General Manager Strategic Development and Exploration*
- G Lockyer – *Chief Financial Officer and Company Secretary*
- J Ganser – *General Manager of Projects*
- N Graham – *General Manager of Operations and Technology*

### (c) Key management personnel compensation

	2013	2012
	\$	\$
Short-term employee benefits	2,004,586	2,952,775
Post-employment benefits	165,789	322,128
Long-term benefits	94,558	36,815
Termination benefits	-	444,700
Share-based payments	45,981	1,015,651
	<b>2,310,914</b>	<b>4,772,069</b>

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

### (d) Equity instrument disclosures relating to key management personnel

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

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

#### (ii) Option holdings

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## Note 19: Key management personnel disclosures (cont)

2013	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of year	Vested and exercisable	Unvested
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### Directors of Arafura Resources Limited

I J Kowalick	-	-	-	-	-	-	-
T Grose	-	-	-	-	-	-	-
C Tonkin	750,000	-	-	-	750,000	750,000	-
S Lu	1,500,000	-	-	-	1,500,000	1,500,000	-
A Losada-Calderon	1,500,000	-	-	(1,500,000)	-	-	-

### Key management personnel of the Group

R Brescianini	1,050,000	430,000	-	-	1,480,000	1,050,000	430,000
G J Lockyer	1,700,000	430,000	-	(500,000)	1,630,000	1,200,000	430,000
N Graham	1,250,000	430,000	-	-	1,680,000	1,250,000	430,000
J Ganser	1,250,000	-	-	-	1,250,000	1,250,000	-

Total	9,000,000	1,290,000	-	(2,000,000)	8,290,000	7,000,000	1,290,000
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2012	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of year	Vested and exercisable	Unvested
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### Directors of Arafura Resources Limited

I J Laurance	2,000,000	-	-	(2,000,000)	-	-	-
S Ward	1,500,000	3,500,000	-	(5,000,000)	-	-	-
I J Kowalick	1,500,000	-	-	(1,500,000)	-	-	-
T R Jackson	1,500,000	-	-	(1,500,000)	-	-	-
I G Muir	-	-	-	-	-	-	-
C Tonkin	-	750,000	-	-	750,000	-	750,000
S Lu	500,000	1,000,000	-	-	1,500,000	500,000	1,000,000
A Losada-Calderon	1,100,000	400,000	-	-	1,500,000	1,100,000	400,000
L Jones	-	750,000	-	(750,000)	-	-	-
L Reynolds	-	750,000	-	(750,000)	-	-	-

### Key management personnel of the Group

S Mackowski	350,000	-	-	(350,000)	-	-	-
R Brescianini	850,000	200,000	-	-	1,050,000	850,000	200,000
G J Lockyer	1,500,000	200,000	-	-	1,700,000	1,500,000	200,000
N Graham	750,000	500,000	-	-	1,250,000	750,000	500,000
J Ganser	750,000	500,000	-	-	1,250,000	750,000	500,000

Total	12,300,000	8,550,000	-	(11,850,000)	9,000,000	5,450,000	3,550,000
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All vested options are exercisable at the end of the year.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## Note 19: Key management personnel disclosures (cont)

### (iii) Share holdings

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

2013	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year (on market trades)	Balance at the end of the year
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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	-	-	-	-
A Losada-Calderon	-	-	-	-

#### Key management personnel of the Group

R Brescianini	85,054	-	-	85,054
G J Lockyer	334,014	-	-	334,014
N Graham	13,513	-	-	13,513
J Ganser	-	-	-	-

Total	1,009,588	-	120,000	1,129,588
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2012	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 Laurance	120,000	-	-	120,000*
I J Kowalick	560,000	-	17,007	577,007
T R Jackson	5,256,535	-	-	5,256,535*
S Ward	145,000	-	-	145,000*
I G Muir	2,997,001	-	-	2,997,001*
C Tonkin	-	-	-	-
S Lu	-	-	-	-
A Losada-Calderon	-	-	-	-

#### Key management personnel of the Group

S J Mackowski	-	-	-	-
R Brescianini	51,330	-	34,014	85,344
G J Lockyer	300,000	-	34,014	334,014
N Graham	13,513	-	-	13,513
J Ganser	-	-	-	-

Total	9,443,379	-	85,035	9,528,414
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\*Represents the balance of shares held at the time of resignation.



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## Note 19: Key management personnel disclosures (cont)

### (iv) Loans to key management personnel

In the 2012 and 2013 financial year, there were no loans to individuals at any time.

### (v) Other transactions with key management personnel

In the 2012 and 2013 financial year, there were no transactions with individuals at any time.

## Note 20: Remuneration of auditors

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

	2013	2012
	\$	\$
<b>1. Audit services</b>		
<i>BDO Audit (WA) Pty Ltd</i>		
Audit and review of financial reports	70,000	90,779
<b>Total remuneration for audit services</b>	<b>70,000</b>	<b>90,779</b>

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

The report prepared by BDO aimed to provide a conclusion to shareholders and other stakeholders as to the reasonableness of the transaction between ECE and Arafura. Details of the amounts paid for non-audit services have been offset against equity as 'transaction costs' however are separately shown below:

	2013	2012
	\$	\$
<b>1. Non-Audit services</b>		
<i>BDO Audit (WA) Pty Ltd</i>		
Independent Expert's Report	50,590	-
<b>Total remuneration for non-audit services</b>	<b>50,590</b>	<b>-</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## Note 21: Commitments and contingencies

### (a) Mining tenement commitments

	2013	2012
	\$	\$
Within one year	618,265	1,445,995
Later than one year but not later than five years	2,139,489	5,144,642
Later than five years	-	-
	<b>2,757,754</b>	<b>6,590,637</b>

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

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

### (b) Hire purchase commitments

	2013	2012
	\$	\$
Within one year	16,296	10,795
Later than one year but not later than five years	-	16,295
Later than five years	-	-
	<b>16,296</b>	<b>27,090</b>
Less: future finance charges	<b>(265)</b>	<b>(1,800)</b>
Recognised as liability	<b>16,031</b>	<b>25,290</b>
Represented by:		
Current (note 12)	16,031	9,260
Non-current (note 12)	-	16,030
	<b>16,031</b>	<b>25,290</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## Note 21: Commitments and contingencies (cont)

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

### (c) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

<i>Property Plant &amp; Equipment</i>	2013	2012
	\$	\$
Within one year	-	2,000,000
Later than one year but not later than five years	-	16,000,000
Later than five years	-	-
	-	18,000,000

### (d) Lease commitments:

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

	2013	2012
	\$	\$
Within one year	382,736	375,803
Later than one year but not later than five years	-	375,803
Later than five years	-	-
	382,736	751,606

### (e) Contingencies

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

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## Note 21: Commitments and contingencies (cont)

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

## Note 22: Earnings per share

2013	2012
Cents	Cents

(a) Basic loss per share		
Basic loss per share (cents per share)	(2.8)	(2.3)
(b) Diluted loss per share		
Diluted loss per share (cents per share)	(2.8)	(2.3)

2013	2012
\$	\$

Net Earnings/(loss)	(11,762,148)	(8,694,922)
Earnings/(loss) used to calculate basic earnings per share	(11,762,148)	(8,694,922)
Earnings/(loss) used to calculate diluted earnings per share	(11,762,148)	(8,694,922)

2013	2012
Number of shares	Number of shares

Weighted average number of ordinary shares used in calculating basic earnings per share	423,536,097	375,713,686
Weighted average number of ordinary shares used in calculating diluted earnings per share	423,536,097	375,713,686
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	-	-

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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## **Note 22: Earnings per share (cont)**

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.

## **Note 23: Related party transactions**

### **(a) Parent entity**

The parent entity within the Group is Arafura Resources Limited. The ultimate Australian parent entity is Arafura Resources Limited which at 30 June 2013 owns 100% of the issued ordinary shares of Arafura Iron Pty Ltd, Arafura Rare Earths Pty Ltd, Arafura Uranium Pty Ltd and Arafura Land Holdings Pty Ltd. The ultimate parent entity and ultimate controlling party is Arafura Resources Limited which at 30 June 2013 owns 100% of the issued ordinary shares of Arafura Iron Pty Ltd, Arafura Rare Earths Pty Ltd, Arafura Uranium Pty Ltd and Arafura Land Holdings Pty Ltd.

### **(b) Subsidiaries**

Interests in subsidiaries are set out in note 24.

### **(c) Key management personnel**

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

### **(d) Transactions with related parties**

Other than transactions held between subsidiaries of the Group, there were no other transactions with related parties of the Group.

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

There were no outstanding balances at the end of the reporting period in relation to transactions with related parties.

### **(f) Loans to/from related parties**

Other than loans held between subsidiaries of the Group, there were no other loans entered into or agreed upon with related parties of the Group.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## Note 23: Related party transactions (cont)

### (g) Terms and conditions

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

## Note 24: Subsidiaries

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

Name of entity	Country of incorporation	Class of share	Equity holding	
			2013 %	2012 %
Arafura Rare Earths Pty Ltd	Australia	Ordinary	100	100
Arafura Uranium Pty Ltd	Australia	Ordinary	100	100
Arafura Iron Pty Ltd	Australia	Ordinary	100	100
Arafura Land Holdings Pty Ltd	Australia	Ordinary	100	100

## Note 25: Interests in possible joint ventures

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.

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).

At 30 June 2013, no farm-in arrangements had converted into a binding Joint Venture.

A listing of Arafura's tenements held at 30 June 2013, including the rights held/relinquished can be found on the last page of the financial report.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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## Note 26: Events occurring after the reporting date

- a) Mr Chris Tonkin stepped down as Managing Director and Chief Executive Officer on the 23rd of July 2013 and Mr Gavin Lockyer was appointed to the position. Mr Tonkin will continue as a Non-Executive Director of the Company.
- b) Arafura issued a total of 7,650,000 options to employees in accordance with the Company's Long-Term Incentive Plan. These options were granted on the 18<sup>th</sup> of July 2013, expire on the 18<sup>th</sup> of July 2016 and can be exercised at \$0.14.
- c) Arafura entered into a Memorandum of Understanding with Shenghe Resources Holding Company Ltd as announced on the 9<sup>th</sup> of September 2013. The MOU has the objective of developing Arafura's Nolans Rare Earths Project and encourages Shenghe Resources to utilise the development of Nolans as an opportunity for international expansion of its existing Chinese based Rare Earths business.

No other matter or circumstance has arisen since 30 June 2013 that has significantly affected, or may significantly affect:

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

## Note 27: Share-based payments

### Employee option plan

The establishment of the Arafura Resources Limited Employee Share Option Plan (ESOP) was approved by shareholders at the 2010 AGM and will require consideration at the upcoming 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 FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## Note 27: Share-based payments (cont)

### *Fair value of options granted*

Key Management Personnel received an aggregate 1,290,000 options out of a total 2,058,000 for the 2013 financial year exercisable at \$0.23. Refer to the remuneration report beginning page 28 to determine the fair value expense of options granted during the period ending 30 June 2013.

Arafura uses the “Binomial Model” to value its options. The model inputs for options granted during the year ended 30 June 2013 are:

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

Exercise price	Grant date	Expiry date	Share price at grant date	Expected price volatility	Expected dividend yield	Risk free interest rate
\$0.23	10-Jan-13	31-Dec-15	\$0.25	71.03%	n/a	2.75%

- (b) *Employee share scheme*

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

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

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

	2013	2012
	\$	\$
Options issued under the executive & employee option plan	228,837	1,089,211
	<u>228,837</u>	<u>1,089,211</u>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## Note 28: Parent entity financial information

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

<i>Arafura Resources Ltd (Parent)</i>	2013	2012
	\$	\$
<b>Statement of Financial Position</b>		
Current assets	53,728,018	20,077,439
Total assets	144,001,651	147,640,207
Current Liabilities	2,828,431	4,729,811
Total Liabilities	2,940,548	4,810,100
<i>Shareholders Equity</i>		
Issued Capital	194,128,196	184,363,890
Reserves		
Option Reserve	11,182,015	10,953,178
Retained Earnings	(64,249,108)	(52,486,961)
<b>Profit or (loss) for the year</b>	<b>(11,762,148)</b>	<b>(8,694,922)</b>
<b>Total comprehensive income</b>	<b>(11,762,148)</b>	<b>(8,707,441)</b>

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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## Note 28: Parent Entity Information (cont)

Intercompany loans held between the parent and it's subsidiaries are also listed below:

Consolidated		Parent Entity	
2013	2012	2013	2012
\$	\$	\$	\$
<b>Loans to related parties</b>			
Arafura Rare Earths Pty Ltd	-	21,019,662	22,987,403
Arafura Land Holdings Pty Ltd	-	-	2,040,359
	-	21,019,662	25,027,762
<b>Other</b>			
Prepayments <sup>(1)</sup>	2,000,000	-	-

(1) Initial deposit for capital asset acquired under an asset sale and purchase agreement other details of which are subject to an incomplete commercial arrangement.

### (a) Impaired receivables and receivables past due

Arafura Resources Ltd had an existing loan receivable from Arafura Land Holdings Pty Ltd at the end of the 2013 period of \$5,040,359. Due to the cancellation of the Land Purchase Agreement at Whyalla, these costs were deemed unrecoverable and were subsequently impaired. This effect resulted in Arafura Land Holdings Pty Ltd becoming net asset deficient and as a result, the loan was impaired also and eliminated on consolidation.

# DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2013

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## 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 2013 and of the performance for the year ended on that date for the consolidated entity.
- (2) In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (3) In the Directors' opinion, the financial statements and notes are prepared in compliance with IFRS and interpretations alerted by the International Accounting Standards Board.
- (4) The remuneration disclosures set out on pages 28 to 42 of the Directors' report (as part of the audited Remuneration Report), for the year ended 30 June 2013 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  
23 September 2013

## 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 2013, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' Responsibility for the Financial Report

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

### Auditor's Responsibility

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

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

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

### 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 2013 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

## Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2013. 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 2013 complies with section 300A of the *Corporations Act 2001*.

**BDO Audit (WA) Pty Ltd**

A handwritten signature in blue ink, appearing to read 'Glyn O'Brien', with the BDO logo above it.

**Glyn O'Brien**  
Director

Perth, Western Australia  
Dated this 23<sup>rd</sup> day of September 2013

# 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 2013:

#### (a) Distribution of fully paid ordinary shareholders

Size of holding	Number of shareholders	Number of shares
1 – 1000	1,173	636,222
1,001 – 5,000	2,513	7,664,455
5,001 – 10,000	1,538	12,626,183
10,001 – 100,000	2,681	88,752,403
100,001 – and over	337	331,591,381
	8,242	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 2013, there existed 3,720 shareholders who held less than a marketable parcel of shares.

### 2. Substantial shareholders at 31 August 2013 as per their notices:

Name	Ordinary shares %
ECE Nolans Inv CO PL	24.86%
JP Morgan Nom Aust Ltd	22.91%

### 3. Quotation

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

# SHAREHOLDER INFORMATION

## OF ARAFURA RESOURCES LTD

As at 31 August 2013, the twenty largest shareholders held 260,980,271 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	101,073,802	22.91
3	Citicorp Nom PL	11,730,396	2.66
4	HSBC Custody Nom Aust Ltd	9,902,470	2.24
5	National Nom Ltd	7,825,806	1.77
6	J P Morgan Nom Aust Ltd	6,457,635	1.46
7	Leach Julian Paul	1,589,568	0.36
8	Yu Dachang	1,258,000	0.29
9	Muir Irvin Graham	1,250,535	0.28
10	Gu Jiesheng	1,144,000	0.26
11	BNP Paribas Noms PL	1,082,925	0.25
12	Kamdia PL	1,000,000	0.23
13	Tao Huapang	1,000,000	0.23
14	Moltoni Peter + Susan P	985,023	0.22
15	ABN Amro Clearing Sydney	931,779	0.21
16	Wong Laurance	900,000	0.20
17	Gule Inv PL	806,355	0.18
18	Best Friend Entps PL	800,000	0.18
19	Merrill Lynch Aust Nom PL	794,127	0.18
20	Brispot Nom PL	748,017	0.17
		260,980,271	



# SHAREHOLDER INFORMATION

## OF ARAFURA RESOURCES LTD

The Group holds the following interests as indicated below:

Project	Title	Holder	Joint venture partners
Nolans	ML 26659 <sup>1</sup>	Arafura Rare Earths Pty Ltd	-
Aileron-Reynolds	EL 28498 <sup>2</sup> , EL 28473 <sup>2</sup> , EL 29227, EL 29503, EL 29509, EL 27337, EL 24548 <sup>2,3</sup>	Arafura Resources Ltd	Ferrowest Ltd
Aileron Basins	EL 24741 <sup>4</sup>	Central Australian Phosphate Ltd	-
Jervois	EL 29701 <sup>5,6</sup>	Arafura Resources Ltd	Rox Resources Ltd
Mt Porter	ELR 116 <sup>7</sup> , ML 23839 <sup>7</sup> , EL 23237 <sup>7</sup>	Arafura Resources Ltd	Ark Mines Ltd
Frances Creek	MA 389 <sup>8</sup> , EL 10137 <sup>8</sup> , ML 24727 <sup>8</sup> , ML 27228 <sup>8</sup> , ML 25087 <sup>8</sup> , ML 25088 <sup>8</sup> , ML 25529 <sup>8</sup> , ML 27225 <sup>8</sup> , ML 27226 <sup>1,8</sup> , ML 27227 <sup>8</sup> , ML 27229 <sup>8</sup> , ML 29930 <sup>1,8</sup> , ML 27230 <sup>1,8</sup>	Territory Resources Ltd / Frances Creek Pty Ltd / Territory Iron Pty Ltd	Ark Mines Ltd
Kurinelli	MA 74, MC 950-953	Arafura Resources Ltd	-
Hammer Hill	EL 9725 <sup>2</sup> , EL 10136 <sup>2</sup>	Arafura Resources Ltd	-
Pamela	EL 25754 <sup>1</sup>	Arafura Resources Ltd	-

<sup>1</sup>Application lodged with the Department of Mines and Energy in the Northern Territory, Australia.

<sup>2</sup>Central Australian Phosphate Ltd uranium rights.

<sup>3</sup>Ferrowest Ltd has the right to earn in and acquire 60% of Arafura's iron ore rights.

<sup>4</sup>Arafura Resources Ltd non-uranium rights.

<sup>5</sup>Rox Resources Ltd has the right to earn in and acquire 70% of Arafura's base and precious metals rights.

<sup>6</sup>Central Australian Phosphate Ltd uranium rights on that part of EL 29701 previously occupied by EL 10215.

<sup>7</sup>Ark Mines Ltd has the right to earn in and acquire 70% of the tenement.

<sup>8</sup>Arafura Resources Ltd gold rights. Ark Mines Ltd has the right to earn in and acquire 70% of Arafura's rights.

All the above tenement holdings are in the Northern Territory, Australia.