



ARAFURA RESOURCES LIMITED

ABN 22 080 933 455

Consolidated Interim Financial Report For the Half-Year Ended 31 December 2012

CORPORATE OFFICE

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CONTENTS

	Page
Directors' report	2
Auditors' independence declaration	10
Interim financial report	
- Consolidated statement of profit or loss and other comprehensive income	11
- Consolidated statement of financial position	12
- Consolidated statement of changes in equity	13
- Consolidated statement of cash flows	14
- Notes to the consolidated financial statements	15
- Directors' declaration	23
Independent auditor's review report to members	24

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Arafura Resources Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2012.

Directors

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

I J Kowalick

C S Tonkin

S Lu

T Grose

The following changes took place to the Board of Arafura Resources Limited from 1 July 2012 up to and including the date of this report.

- 1) Mr Alex Losada-Calderon retired and stepped down from the position of Non-Executive Director on the 30th of November 2012.
- 2) Mr Terry Grose was appointed as Non-Executive Director on the 21st of January 2013.

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

Review of operations

During the reporting period the Group primarily advanced work on the Nolans Project in the following areas.

Mine and Resource

At the beginning of the new financial year, the Company completed and released an update report on the Nolans Project (ASX: ARU 07 August 2012). This comprehensive document details the history and development of the Nolans Project, the accomplishments to date and requirements going forward to bring the project to construction and completion. As part of this Project Update, the Company established a Base Case which includes a mine and concentrator at Nolans Bore in the Northern Territory, and a chemical processing operation at Whyalla in South Australia.

The Project Base Case is based on 20,000 tonnes per annum of Rare Earth Oxide products, generating a Net Present Value ("NPV") of A\$4.3 billion and an internal rate of return ("IRR") of 30%, on an after tax basis. The Base Case projects a strong financial return over a 20 year period with a capital payback within four years of operation.

Following this, the Company engaged BDO Corporate Finance (WA) Pty Ltd ("BDO") to prepare an Independent Expert's Report ("IER") to determine the value of the Nolans Project using a discounted cash-flow method. In this report, issued on the 18th of September 2012, BDO values the Nolans Project at a preferred valuation of \$3.2 billion dollars – more than thirty times its current market capitalisation. In addition, BDO independently valued the Company's share price to be in the range of \$0.243 to \$0.404 per share, with a preferred value of \$0.323 at the time of the valuation. The Independent Expert's valuation used a discounted cash-flow analysis further validates the strong progress and advanced stage of the Nolans Project.

The Nolans Project valuation prompted the Company to request an independent assessment of whether the Mineral Resource at Nolans Bore can be converted to an Ore Reserve. Subsequently on the 11th of December 2012, the Company announced a world scale maiden JORC Ore Reserve for its 100 per cent-owned Nolans Rare Earths Project.

The Ore Reserve has been independently prepared by AMC Consultants Pty Ltd ("AMC") of Perth, Australia, and is based on Measured and Indicated Mineral Resources estimated for the Nolans Bore deposit by AMC earlier in the year.

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

The Ore Reserves at Nolans Bore are estimated to be:

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

*Numbers may not compute exactly due to rounding.

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 and has a 95% conversion rate of Measured and Indicated Resources to Ore Reserves.

In addition to this, the Company outlined 21 million tonnes of Inferred Resources at Nolans Bore that could be converted to additional Ore Reserves with further drilling to improve confidence in these resources. A large part of the resource remains at open depth.

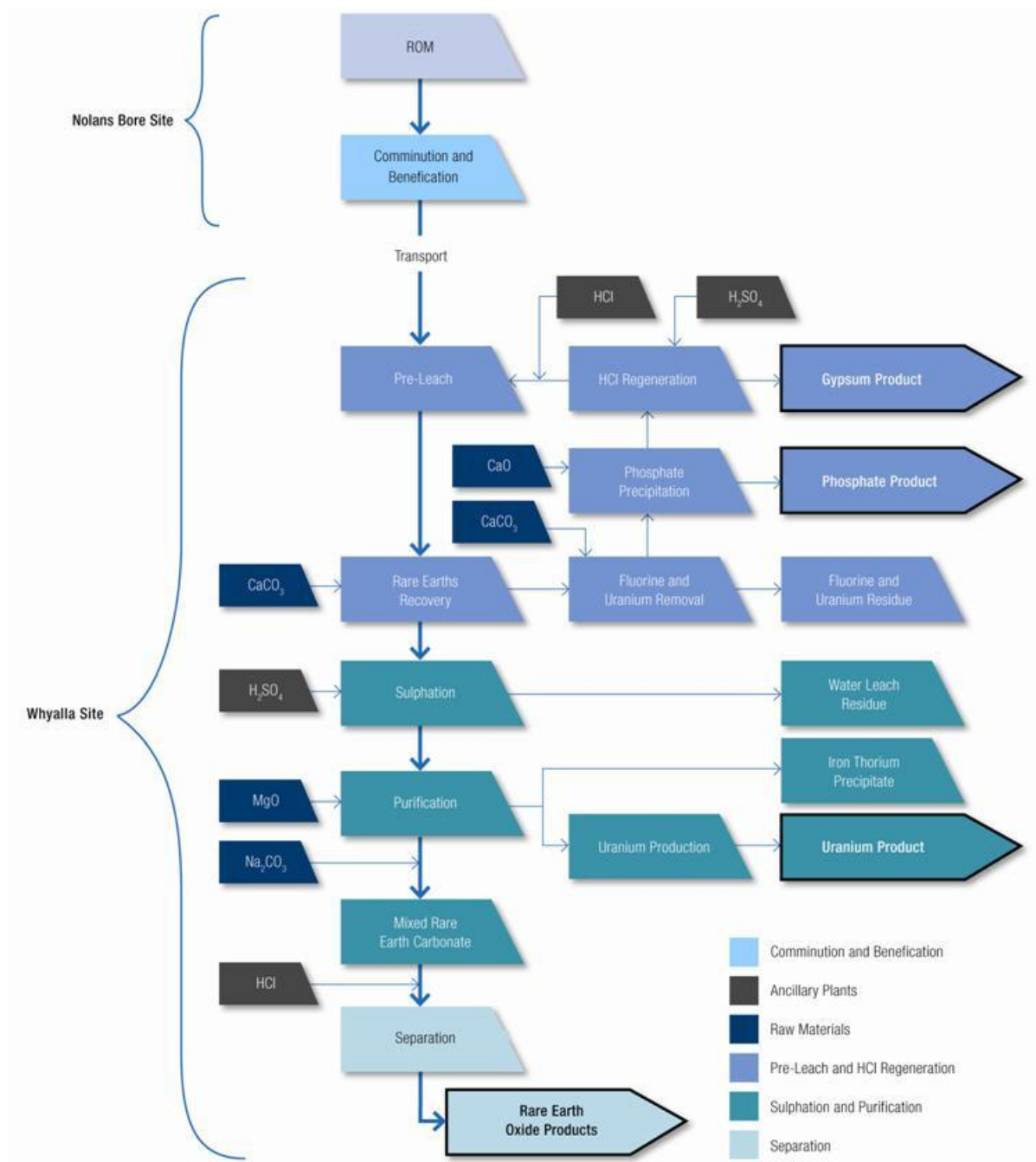
The establishment of a world-scale JORC Ore Reserve represents another key milestone for the Company and its flagship Nolans Project. It further validates the advanced stage and commercial appeal of the Nolans Project.

Engineering and Technology

During the six month reporting period, the Company has made significant progress on a number of Base Case feasibility work streams. These include:

- Completion of scoping and testing for the production of Lanthanum Oxide – separated to 99% purity (ASX: ARU on 24 January 2013)
- Commissioning of the sulphation demonstration plant
- Progress on proving up the beneficiation circuit
- Mine and Plant Design engineering to levels of +/- 30% accuracy
- Transport, logistics and raw material estimates to +/- 30% accuracy
- Off-take negotiations with potential customers
- Continuing work on baseline studies to support the Project Environmental Impact studies
- Completion of option studies to assess process improvements
- Information Memorandum drafted for potential investors and financiers

Nolans Project Flow Diagram



DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

The process flow sheet and mass balance, as well as the major recycle circuits, will be confirmed by an Integrated Pilot Plant ("IPP") planned to be constructed this year. The IPP results will also be used to support Arafura's further consideration of options and opportunities to improve and benefit the Project, its economics and the final engineering design of the Project.

Technical Review and Optimisation Program

Through introductions provided by ECE, the Company has engaged with Chinese rare earth experts regarding a technical review and optimisation program for the Project. The objective is to access Chinese rare earths expertise that may assist and facilitate process flow sheet and design efficiencies and achieve reductions in capital and operating costs.

Health and Safety, Environment and Community.

The flora and fauna reports for the Whyalla site are now complete. Presentations and discussions with local stakeholders will take place in the coming months. Regional ground water surveys have now been conducted at Nolans Bore. Early results regarding the sustainability of the ground water resource have been positive.

The Northern Territory Government approved Arafura's request to extend the time period for submission of the draft Environmental Impact Statement for Nolans Bore until December 2014. The guidelines have been subject to a minor update as a result of policy and process changes since their issue in 2010.

Individual baseline environmental studies for the Whyalla site have progressed to the report production stage for the initial study areas, in preparation for wider consultation and stakeholder engagement. The field study programs to date continue to yield results in line with the background expectations and have not highlighted any significant issues likely to impact the development of the Project at the two sites.

Arafura has continued to maintain its community profile, presence and accessibility to a wide range of stakeholders in both the Northern Territory and South Australia.

Corporate, Sales and Marketing

On the 21st of November 2012, Arafura announced completion of the share subscription agreement to its major shareholder ECE Nolans Investment Company Pty Ltd ("ECE"). As part of the completion of the agreement, the Company received cash of \$9.9m in exchange for 45,266,500 fully paid ordinary shares at an issue price of \$0.22 per share.

The price represented a 29% premium over the Company's last trading day's closing price

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

and a 10% premium over the 15 day VWAP of A\$0.20 at the time the transaction was agreed. The transaction received approval from the Australian Government through the Foreign Investment Review Board and authorities in the People's Republic of China. It was also strongly supported by shareholders at the EGM held on 18 October 2012.

Following settlement, ECE returned to a strategic equity holding of 24.86% in Arafura as per their original agreement, signed in 2009. ECE's continued financial and strategic support validates its confidence in the Nolans Project and in Arafura's Board and management.

On the 18th of October 2012, Arafura advised the market that it had received \$22.538m as a tax refund for eligible research and development ("R&D") expenditure in relation to the development of the Nolans Rare Earths Project in the Northern Territory and South Australia.

Together, these funds contributed \$32 million for continuing work streams on the Nolans Project Feasibility, an essential requirement for progressing the Project to an investment and funding stage.

Segment Information

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

	Segment expenditures		Segment revenues		Capitalised		Segment results	
	2012	2011	2012	2011	2012	2011	2012	2011
	\$	\$	\$	\$	\$	\$	\$	\$
Project evaluation	(3,503,441)	(33,093,170)	20,581,104	-	17,077,663	(32,934,603)	-	(158,567)
Exploration	(315,514)	(134,790)	-	-	(315,514)	(134,790)	-	-
Corporate	(3,806,229)	(5,051,684)	2,540,468	1,651,493	-	-	(1,265,761)	(3,400,191)
Total(s)	(7,625,184)	(38,279,644)	23,121,572	1,651,493	16,762,149	(33,069,393)	(1,265,761)	(3,558,758)

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

(a) Project evaluation

Project evaluation expenditure incurred was primarily for works on the Nolans Project Feasibility. This included pre-leach demonstration, sulphation demonstration and Rare Earths Oxide separation programs, technological development for Base Case Rare Earth processing, processing and beneficiation plant engineering development, trade off study

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

analysis environmental impact study work for mine site and proposed processing facility. Other expenditure was for resource definition works relating to the Nolans Bore resource and reserve.

\$20.581 million of the R&D Tax Incentive Rebate received during the financial reporting period for eligible R&D expenditure incurred during the previous financial year has been allocated against this reporting segment.

(b) Exploration

Exploration expenditure incurred was for activities for on ground exploration at the Aileron/Reynolds Range and Hammer Hill tenements targeting further Rare Earth Elements via geochemical surveys and geological prospecting.

Expenditure was also incurred from the structuring and execution of the farm-in agreements with Rox Resources Limited ("Rox") and Ark Mines Limited ("Ark") and ongoing tenement maintenance.

(c) Corporate

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

\$1.957 million of the R&D Tax Incentive Rebate received during the financial reporting period for eligible R&D expenditure incurred during the previous financial year has been allocated against this reporting segment.

Events occurring after the Reporting Date

(a) Changes to the Board of Arafura Resources Limited

On the 22nd of January 2013 (ASX:ARU) Arafura announced the appointment of Mr. Terence (Terry) Grose (B.Ec, MBA) as a Non-Executive Director of the Company with effect from 21 January 2013.

Terry has a strong commercial background gained over 30 years experience as a senior business executive, consultant and Director, in Australia and internationally. Terry has worked for such organisations as Wesfarmers Limited and has had experience in strategic planning and financial management.

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.

DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

(b) Farm-in Agreement Executed with Ark Mines Limited

On the 15th of January 2013 (ASX:ARU) Arafura announced an execution of a farm-in agreement with Ark Mines Limited ("Ark") over Arafura's Mt Porter and Frances Creek Gold Projects.

(c) Issue of Options

As part of Arafura's Employee Share Option Plan, a total of 2,058,000 options (including 1,290,000 options issued to Key Management Personnel) were issued at a 30% premium (\$0.23 strike price) to the 15 day VWAP to 14 December 2012 in lieu of an annual remuneration review for the year ended June 2012.

The Grant Date of these options is the 9th of January 2013, with a vesting date of 31 December 2013 and an expiry date of 31 December 2015.

Audit independence declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 10.

Signed in accordance with a resolution of the Directors.

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

Chris Tonkin
CEO & Managing Director

Perth
12 March 2013



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12 March 2013

The Board of Directors
Arafura Resources Limited
Level 5
16 St Georges Terrace
PERTH WA 6000

Dear Sirs,

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

As lead auditor for the review of Arafura Resources Limited for the half-year ended 31 December 2012, I declare that to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in blue ink, appearing to read 'Glyn O'Brien', with a stylized flourish at the end.

Glyn O'Brien
Director

BDO Audit (WA) Pty Ltd
Perth, Western Australia

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

		Consolidated Entity Half-Year	
		31 December 2012	31 December 2011
Notes		\$	\$
Revenue from continuing operations	3	583,824	1,501,493
Other income	3	2,168,296	189,122
Employee benefits expense	4	(1,968,394)	(3,334,472)
Project feasibility and evaluation	4	-	(158,567)
Other expenses	4	(1,993,314)	(2,458,327)
Depreciation and amortisation	4	(61,084)	(101,404)
Finance costs	4	(938)	(1,680)
Impairment on assets	4	(31,150)	(59,007)
Loss before income tax		(1,302,760)	(4,422,842)
Income tax expense		-	-
Net Loss for the half-year		(1,302,760)	(4,422,842)
Other comprehensive income/(loss)			
Items that will be reclassified to profit or loss			
Changes in the fair value of assets		-	(12,519)
Other comprehensive income/(loss) for the half-year		-	(12,519)
Total comprehensive (loss) for the half-year		(1,302,760)	(4,435,361)
Total comprehensive (loss) for the half-year attributable to owners of Arafura Resources Limited			
		(1,302,760)	(4,435,361)
		Cents	Cents
Earnings per share for loss attributable to owners of Arafura Resources Limited			
Basic and diluted loss per share		(0.32)	(1.21)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

		Consolidated as at	
		31 December 2012	30 June 2012
Notes		\$	\$
ASSETS			
Current Assets			
		40,962,276	19,545,603
		716,471	457,866
		57,697	74,010
		41,736,444	20,077,479
Non-current assets			
		4,000,000	2,000,000
		337,153	362,011
	5	108,712,859	125,475,008
		113,050,012	127,837,019
		154,786,456	147,914,498
LIABILITIES			
Current liabilities			
		9,942	9,260
		3,236,792	4,994,842
		3,246,734	5,004,102
Non-current liabilities			
		10,890	16,030
		80,782	64,259
		91,672	80,289
		3,338,406	5,084,391
		151,448,050	142,830,107
EQUITY			
	6	194,129,112	184,363,890
		11,108,659	10,953,178
		(53,789,721)	(52,486,961)
		151,448,050	142,830,107

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

Consolidated Half-Year 2012	Notes	Contributed Equity \$	Equity reserve \$	Revaluation reserve \$	Accumulated losses \$	Total \$
Balance at 1 July 2012		184,363,890	10,953,178	-	(52,486,961)	142,830,107
Total comprehensive (loss) for the half-year						
Loss for the half-year		-	-	-	(1,302,760)	(1,302,760)
Other comprehensive (loss) for the half-year						
Fair value movement of available-for-sale financial assets		-	-	-	-	-
Total comprehensive (loss) for the half-year		-	-	-	(1,302,760)	(1,302,760)
Transactions with owners in their capacity as owners:						
Contributions of equity net of transaction costs		9,765,222	-	-	-	9,765,222
Cost of share based options		-	155,481	-	-	155,481
		9,765,222	155,481	-	-	9,920,701
Balance at 31 December 2012	6	194,129,112	11,108,659	-	(53,789,721)	151,448,050
Balance at 1 July 2011		176,163,635	9,863,967	12,519	(43,792,039)	142,248,082
Total comprehensive (loss) for the half-year						
Loss for the half-year		-	-	-	(4,422,842)	(4,422,842)
Other comprehensive (loss) for the half-year						
Fair value movement of available-for-sale financial assets		-	-	(12,519)	-	(12,519)
Total comprehensive income/(loss) for the half-year		-	-	(12,519)	(4,422,842)	(4,435,361)
Transactions with owners in their capacity as owners:						
Contributions of equity net of transaction costs		-	-	-	-	-
Cost of share based options		-	741,115	-	-	741,115
		-	741,115	-	-	741,115
Balance at 31 December 2011		176,163,635	10,605,082	-	(48,214,881)	138,553,836

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

	Consolidated	
	31 December 2012 \$	31 December 2011 \$
Notes		
Cash flows from operating activities		
Payments to suppliers and employees	(3,986,047)	(4,487,418)
Interest received	394,834	2,378,501
Interest paid	(938)	(1,680)
Proceeds from R&D tax incentive rebate	1,956,643	-
Other revenue	-	15,194
Net cash (outflow) from operating activities	(1,635,508)	(2,095,403)
Cash flows from investing activities		
Payment for property, plant and equipment	(2,046,928)	(62,418)
Payments for exploration and evaluation	(5,233,872)	(32,799,563)
Proceeds from R&D tax incentive rebate	20,581,104	-
Net cash inflow/(outflow) from investing activities	13,300,304	(32,861,981)
Cash flows from financing activities		
Proceeds from issue of shares	9,765,223	-
Net cash inflow from financing activities	9,765,223	-
Net increase/(decrease) in cash and cash equivalents	21,430,019	(34,957,384)
Cash at the beginning of the financial period	19,545,603	70,223,566
Effects of exchange rate changes	(13,346)	39,122
Cash and cash equivalents at the end of the financial period	40,962,276	35,305,304

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

Note 1: Basis of Preparation of Half-Year Report

(a) Basis of preparation

This general purpose financial report for the interim half-year reporting period ended 31 December 2012 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2012 and any public announcements made by Arafura Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

(b) Impact of standards issued by not yet adopted by the entity

In the half-year ended 31 December 2012, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2012.

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2012. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

Note 2: Segment Information

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

(a) Description of segments

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

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

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

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

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

(b) Segment information provided to the Arafura Board

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

The segment information provided to the Arafura Board for the reportable segments for the half-year ended 31 December 2012 is as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

Note 2: Segment Information (cont)

	Project Evaluation	Exploration	Corporate	Total
6 months to 31 December 2012				
Segment revenue	20,581,104	-	2,540,468	23,121,572
Segment expenditure	(3,503,441)	(315,514)	(3,806,229)	(7,625,184)
Inter-segment expenditure	-	-	-	-
	17,077,663	(315,514)	(1,265,761)	15,496,388
Adjusted EBITDA	-	-	(1,265,761)	(1,265,761)
Capitalised	17,077,663	(315,514)	-	16,762,149
	17,077,663	(315,514)	(1,265,761)	15,496,388
6 months to 31 December 2011				
Segment revenue	-	-	1,651,493	1,651,493
Segment expenditure	(33,093,170)	(134,790)	(5,051,684)	(38,279,644)
Inter-segment expenditure	-	-	-	-
	(33,093,170)	(134,790)	(3,400,191)	(36,628,151)
Adjusted EBITDA	(158,567)	-	(3,400,191)	(3,558,758)
Capitalised	(32,934,603)	(134,790)	-	(33,069,393)
	(33,093,170)	(134,790)	(3,400,191)	(36,628,151)
Total segment assets				
As at 31 December 2012	98,694,123	14,073,847	42,018,484	154,786,454
As at 30 June 2012	113,762,578	13,712,430	20,439,490	147,914,498
Total segment liabilities				
As at 31 December 2012	2,042,896	353,343	942,167	3,338,406
As at 30 June 2012	3,280,615	680,226	1,123,550	5,084,391

Reconciliation of adjusted EBITDA to operating profit before income tax:

	Consolidated	
	2012	2011
Adjusted EBITDA	(1,265,761)	(3,558,758)
Finance Costs	(938)	(1,680)
Depreciation & amortisation	(61,084)	(101,404)
Share option expense	(155,479)	(741,115)
Unrealised exchange rate gain/(loss)	(13,348)	39,122
Impairment of assets available for sale	(31,150)	(59,007)
Income received from Demonstration Plant reimbursement	225,000	-
Loss before income tax	(1,302,760)	(4,422,842)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

Note 3: Revenue

Consolidated 6 months to	
31 December 2012 \$	31 December 2011 \$

Revenue from continuing operations

Other revenue

Interest received	583,824	1,501,493
	583,824	1,501,493

Other Income

Non-capitalised portion of R&D Tax Incentive rebate	1,956,644	-
Exchange rate gain/(loss) – unrealised	(13,348)	39,122
Other	225,000	150,000
	2,168,296	189,122

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

Note 4: Expenses

Consolidated 6 months to	
31 December 2012 \$	31 December 2011 \$

(a) Expenses

Depreciation

Depreciation – plant & equipment	45,409	82,865
Depreciation – motor vehicles	5,860	9,745
Depreciation – leasehold improvements	9,815	8,794
Total depreciation	61,084	101,404

Finance costs

Interest expense	938	1,680
Total finance costs	938	1,680

Other expenses

Accounting and other professional fees	258,499	215,267
Audit fees	25,000	21,879
Consultants fees	469,378	388,816
Employee benefits expense	1,812,915	2,593,357
Insurance	35,109	49,548
Legal fees	283,368	430,703
Share-based benefits expensed	155,481	741,115
Share registry and stock listing fees	42,098	131,814
Other expenses	879,860	1,220,300
Total other expenses	3,961,708	5,792,799

Development expenses

Pilot plant expenses	-	158,567
Total development expenses	-	158,567

Impairment expenses

Write down on capitalised exploration assets	31,150	-
Write-down on assets available for sale	-	59,007
Total impairment expense	31,150	59,007

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

Note 5: Deferred Exploration and Evaluation Expenditure

Consolidated as at	
31 December 2012	30 June 2012
\$	\$

Exploration and evaluation costs carried forward

Balance at beginning of year/period	125,475,008	77,837,834
Capitalised exploration expenditure	346,664	773,860
Capitalised evaluation expenditure ^(a)	3,503,441	46,115,621
Impairment of exploration expenditure	(31,150)	(9,259)
Transfer (to)/from assets held for sale	-	756,952
R&D Tax Incentive rebate receipted against capitalised evaluation costs	(20,581,104)	-
Balance at end of year/period	108,712,859	125,475,008

- (a) Capitalised evaluation expenditure is expenditure on the Nolans Project feasibility works, demonstration plant and environment impact assessment to evaluate, formulate and demonstrate the technical feasibility and commercial viability in developing a rare earths processing plant to process and treat the ore to be mined from the Nolans Project.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

Note 6: Contributed Equity

Issues of ordinary shares during the half-year:

	December 2012	December 2011	December 2012	December 2011
	Shares	Shares	\$	\$
Balance at 30 June 2012 (2011)	396,004,144	367,980,342	184,363,890	176,163,635
Employee options exercised	-	-	-	-
Private Placement	45,266,500	-	9,958,630	-
Capital raising costs	-	-	(193,408)	-
Balance at 31 December 2012 (2011)	441,270,644	367,980,342	194,129,112	176,163,635

Note 7: Contingent Liabilities

(i) 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.

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

Note 8: Dividends

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

Note 9: Related Party Transactions

No Related Party Transactions occurred during the Reporting Period.

Note 10: Events occurring after the Reporting Date

(a) Changes to the Board of Arafura Resources Limited

On the 22nd of January 2013, Arafura announced the appointment of Mr Terence (Terry) Grose (B.Ec, MBA) as a Non-Executive Director of the Company with effect from 21 January 2013.

Terry has a strong commercial background gaining over 30 years' experience as a senior business executive, consultant and Director, in Australia and internationally. Terry has worked for such organisations as Wesfarmers Limited and has had experience in strategic planning and financial management.

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.

(b) Farm-in Agreement Executed with Ark Mines Limited

On the 15th of January 2013 (ASX:ARU) Arafura announced an execution of a farm-in agreement with Ark Mines Limited ("Ark") over Arafura's Mt Porter and Frances Creek Gold Projects.

(c) Issue of Options

As part of Arafura's Employee Share Option Plan, a total of 2,058,000 options (including 1,290,000 options issued to Key Management Personnel) were issued at a 30% premium (\$0.23 strike price) to the 15 day VWAP to 14 December 2012 in lieu of an annual remuneration review for the year ended June 2012.

The Grant Date of these options is the 9th of January 2013, with a vesting date of 31 December 2013 and an expiry date of 31 December 2015.

DIRECTORS' DECLARATION

FOR THE HALF-YEAR ENDED 31 DECEMBER 2012

In the directors' opinion:

- (a) the financial statements and notes set out on pages 11 to 22 are in accordance with the *Corporations Act 2001*; and
 - (i) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
 - (ii) give a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half-year ended on that date.
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



Chris Tonkin
CEO & Managing Director

Perth
12 March 2013

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF ARAFURA RESOURCES LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Arafura Resources Limited, which comprises the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Arafura Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

BDO Audit (WA) Pty Ltd

A handwritten signature in blue ink, appearing to read 'Glyn O'Brien', is written over the printed name. Above the signature, the letters 'BDO' are also handwritten in blue ink.

Glyn O'Brien
Director

Perth, Western Australia
Dated this 12th day of March 2013