ARAFURA
RESOURCES LIMITED

2017 ANNUAL REPORT

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS
LEVEL 3, 263 ADELAIDE TERRACE
PERTH WESTERN AUSTRALIA, AUSTRALIA 6000

ABN 22 080 933 455

CORPORATE DIRECTORY

DIRECTORS

Ian Kowalick
(Chairman and Non-Executive Director)

Gavin Lockyer
(Managing Director)

Chris Tonkin
(Non-Executive Director)

Terry Grose
(Non-Executive Director)

Quansheng Zhang
(Non-Executive Director)

COMPANY SECRETARY

Peter Sherrington

ANNUAL GENERAL MEETING TO BE HELD AT:

Duxton Hotel – Room 3
1 St George's Terrace
Perth
Western Australia

TIME:

10.00am (WST)

DATE:

Thursday, 16 November 2017

PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

Level 3, 263 Adelaide Terrace
Perth
Western Australia 6000

SHARE REGISTRY

Link Market Services Ltd
QV1 Building, Level 12
250 St Georges Terrace
Perth
Western Australia 6000

AUDITOR

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

SOLICITORS

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

BANKERS

Westpac Banking Corporation
109 St Georges Terrace
Perth
Western Australia 6000

STOCK EXCHANGE LISTING

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

WEBSITE ADDRESS

www.arultd.com

CONTENTS

ARAFURA RESOURCES LIMITED

CHAIRMAN'S REPORT

On behalf of your Board of Directors, it is my pleasure to present the 2017 Annual Report.

The 2016/17 FY has been another year of progress on the Nolans NdPr project as we draw closer to a final investment decision for project financing and the commitment for construction – the outcome of well over a decade of exploration, analysis and pilot test work. This progress appears to coincide with an improvement in the resources sector, and the long-awaited growth of the NdPr market and prices.

In FY16/17 the Arafura team made further changes to the scope of the Nolans Project to improve its overall economics, reduce the capital cost and consequently to enhance its fundability. With the flowsheet of the project and associated design parameters finalised the Managing Director, Gavin Lockyer, and his team have spent the 2016/17 year achieving significant progress on piloting the process and securing the environmental approvals, that are critical path items. I will let Gavin elaborate further on these matters in his report but rest assured, the Board is pleased with progress towards the major milestone, the DFS, which will be the basis for project funding.

The development of the Nolans project has been a long journey for shareholders and management in part determined by economic conditions. At the 2016 AGM the Company outlined its targets for Nolans, that is, on its then current timelines subject to project financing and market conditions, a target for final investment decision in 2018 to put us on track to production in 2020. That timeline remains the target.

Any mining Company looking to build a major project such as Nolans must have regard for economic conditions that determine the health of the resources sector and the economic outlook is encouraging. The capital markets appear to have reopened for resources generally and more specifically for NdPr and battery-related metals such as lithium and cobalt. A recovery in the price of bulk commodities has also driven a more general improvement in sentiment towards the mining sector. That is especially true for 'juniors' with projects related to renewable energy such as Nolans. The ASX300 Metals and Mining Index returned 24 per cent in FY16/17 – its first positive return in three years and its best annual performance in a decade.

This stock market sentiment, combined with an awareness of the potential for a recovery in NdPr prices, enabled Arafura to raise equity for the first time since 2012. In February 2017, the Company raised $3.6 million via a placement to sophisticated and institutional investors in Australia and offshore. This was augmented by a very successful Share Purchase Plan that strengthened the Company's balance sheet at a critical point in time and enabled the Company to further advance the final pilot programs for Nolans.

This was the first such equity raising transaction (excluding rights issues) amongst the ASX listed rare earth stocks for some time and your Board believes it is an encouraging sign as the Company looks to project funding in 2018.

It is pleasing to report that Arafura's share price grew 16.7 per cent in FY16/17, its best annual performance, and first positive return, since FY10/11. As further progress on the project is made in FY17/18, we would like to think that the best is yet to come, particularly when one looks at recent changes in the NdPr market.

CHAIRMAN'S REPORT (continued)

There is a basis for optimism because there appears to be a sustained improvement in NdPr pricing. At last year's AGM, I noted the various measures being undertaken by the Chinese Government to exert control over its domestic rare earths industry and to contain illegal mining and smuggling. Recent reporting by industry analysts indicate that these measures are being meticulously applied and having a genuine impact on reducing overproduction. This decline in illegal mining has meant that inventory levels are being drawn down towards historic norms. This is another critical step in tightening the NdPr market.

On the demand side, we appear to be seeing a change in market dynamics too. The market appears to be recognising the potential impact on NdPr prices of rapidly growing demand for NdFeB permanent magnets for EV traction motors, as well as in wind turbine generators, industrial robots and an ever-growing list of end-use applications. These users are what we have been talking about for many years.

Recent news regarding Tesla's intention to use a permanent magnet motor in the powertrain of several of its Model 3 is an example of the momentum building on the demand side. The smaller size/weight, higher torque density and improved efficiency of permanent magnet motors compared to induction motors makes them attractive for use in EVs and HEVs as they provide better acceleration, reduce vehicle weight and allow greater space for other components. Tesla joins most other auto OEMs in using permanent magnet motors to further improve performance and range as the EV market becomes more competitive.

Sales of HEV/EV totalled 3.2 million in 2016 and this number is expected to nearly triple to 9.4 million units in 2020. This will be an important source of demand for NdPr, just as Nolans is planned to come into production. Demand for NdPr in permanent magnets is forecast to increase by over 10 per cent each year through 2020 which, in the words of independent rare earth market expert Roskill: "will place significant strain on existing rare earth mines and processors".

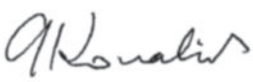
A reduction in illegal mining, the drawdown in inventories, and growing list of applications, results in buyers looking to secure supply. With the outlook for EV demand continuing to grow and with increasingly aggressive targets being put forward by governments and automakers alike, automakers in China and elsewhere are actively pursuing long term binding supply agreements with major producers in China. This is having the effect of tightening spot markets. Vertically integrated Chinese producers/processors are selling internally and this is reducing spot market volumes.

What does all this mean? The answer is: higher prices. Until recently lithium and cobalt price moves had been attracting all the headlines but this too is starting to change. After many years of decline, rare earth prices have begun to strengthen. In FY16/17 the NdPr price rose 14 per cent to close the year at US$47.65/kg FOB China, the highest level in around two years. At the time of writing prices had climbed much higher. While it may be unrealistic to expect the recent rate of increases to be sustained, a sustained increase in NdPr pricing seems reasonable. In the view of independent market analyst, Adamus Intelligence: "…any downward correction in the near term will be followed by a return to strength on account of a tightening supply-demand balance".

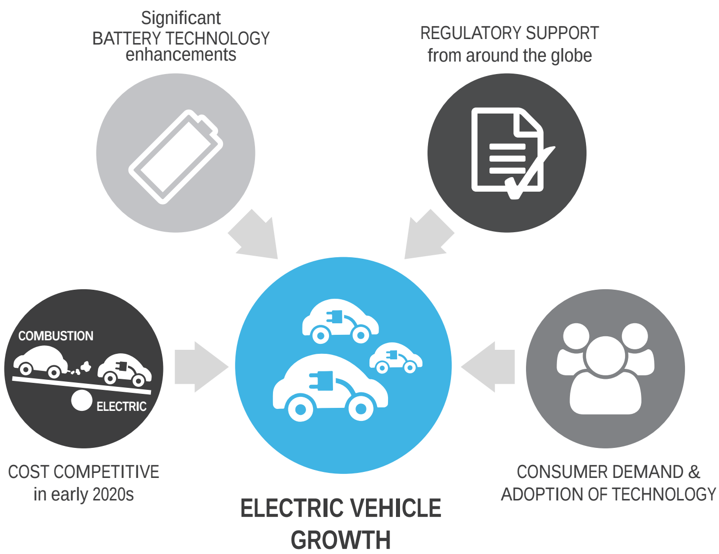
This improved pricing outlook is coinciding with the Company advancing the DFS for Nolans and project funding in 2018. Again I will let Gavin elaborate in detail on these activities. We look forward to updating shareholders on our progress throughout the coming year.

On behalf of your Board I would like to thank Managing Director Gavin Lockyer, and his team of staff and contractors for the ongoing efforts this year to bring Nolans closer to fruition. I would also like to extend our thanks our shareholders for their support and assure you of our optimistic outlook for your Company.

Yours Sincerely



Ian Kowalick,
Chairman



MANAGING DIRECTOR'S REVIEW

FY16/17 saw further material progress with regards to bringing the Nolans NdPr asset closer to a final investment decision and ultimately production - a milestone which will transform your Company. Whether it was on the technical front, the approvals process or fund raising, it has indeed been a pivotal year.

Building on an extremely busy FY15/16 the Arafura team made significant advancements during the year on critical piloting programs to test the new proposed high-recovery flow sheet to provide increased certainty in relation to final plant design and key operating parameters for the DFS. The Nolans pilot program is a seven-stage process and its first three stages – beneficiation, phosphate extraction and bulk pre-leach – have been successfully completed. Work on the remaining four phases is progressing and will be a key focus for the Company in the year ahead as we target a final investment decision in 2018. Shareholders should expect news on this program during the current financial year.

This year saw vital progress on the environmental permitting front. In February 2017, Arafura submitted the EIS supplementary report (EIS Supplement) for Nolans to the NTEPA. The NTEPA has reviewed the information provided in the EIS Supplement and has requested further information to assist with its assessment. The Company is working in conjunction with its environmental consultant GHD and expects the requested information will be formally lodged with NTEPA shortly. The Company is confident that the additional information provided in the EIS Supplement will enable the NTEPA to move through the final assessment and recommendation phase of project approval, and is targeting environmental regulatory approval for the project in 2017.

In June Arafura announced the completion of a detailed program of geochemical analysis to be used for the next phase of mine planning activities for the DFS. The study confirmed a substantial inventory, indeed two-thirds, of the project's higher confidence Measured and Indicated resources are NdPr-bearing, phosphate-rich material types that support the project. The work did not result in any material change to the previously reported Mineral Resources for the project. However, it did reveal the consistent nature of the distribution of NdPr across the deposit.

In terms of the broader macro environment I would also like to make some comments, elaborating on the Chairman's thoughts.

The sustained NdPr price increase in 2017 can be attributed to the tightening supply for NdPr and the reduction of swing production from illegal sources that historically would have entered the market as prices moved upwards. Underlying the sustained price increase is the continued growth in NdPr demand which is driven in the main by NdFeB magnet production. Industry data shows continued increases in global magnet production through 2014, 2015 and 2016. Japanese magnet production has been stable during this period with the growth in world demand being met from increased Chinese production capacity.

The Company is greatly encouraged by the potential growth in demand for NdPr from the EV and HEV sector. It seems that not a month goes by without another auto maker releasing an announcement regarding its future expansion into the EV market.

MANAGING DIRECTOR'S REVIEW (continued)

Tesla's recent announcement is a case in point. This trend is having important consequences for the NdPr sector, not the least of which seems to be the investment by Chinese entities into NdPr mines and miners. One is reminded, albeit on a much large scale, of the scramble by Chinese entities to invest in Australian iron ore mines in the mid-2000s to secure supply during the boom in the domestic Chinese steel sector.

In this vein, the first half of CY2017 saw continued investment in and corporate activity for the rare earth sector, NdFeB magnet production and downstream value-adding industries. Arafura believes these activities are driven by an expectation that China will eventually need to source NdPr oxide from foreign mining operations and needs to continue the expansion of its permanent magnet production capacity to execute on its strategy of promoting medium and high-end manufacturing capability. A significant number of transactions were announced during the period by China-based entities, providing anecdotal evidence of improved sentiment towards rare earths, particularly magnet-feed rare earths.

One of the most critical achievements by the Company during the year was accessing capital markets. Since the collapse in rare earth prices that began in 2012 capital markets had essentially been closed to the sector. The unrelenting fall in prices and the unfortunate financial difficulties encountered by Lynas resulted in ongoing negative headlines and strong headwinds for investor sentiment. This has now changed. Arafura was able to raise capital from local and international institutions and sophisticated investors in February 2017. This is a strong endorsement of the bullish outlook for NdPr pricing and the Nolans asset. It is a key step and cemented important relationships for the Company when the time comes to look at equity and debt financing options for the project.

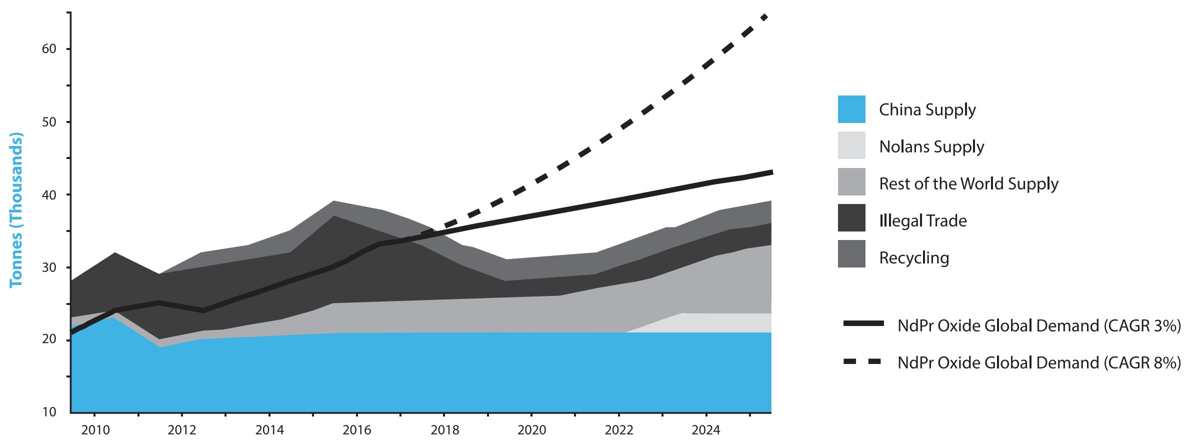
Following the placement and oversubscribed SPP, Arafura's cash position as at 30 June 2017 is strong, standing at $12.5 million. Funds raised through the SPP along with the Company's existing cash reserves will enable the Company to complete the remaining phases of piloting, critical to the advancement of the DFS. Difficult decisions taken in earlier times with regards to overheads and expenses has left the organisation lean and this, together with the funds recently raised, means Arafura is well capitalised to invest every dollar possible into measures that advance the Nolans project in the year ahead.

With regards to the outlook for the Company, I am now more optimistic than at any time during my four-year tenure as Managing Director – most of which has unfortunately coincided with a collapse in rare earth prices and the resources sector more generally. As the Chairman and I have tried to highlight in our respective reports, we feel that that the environment has changed for the better. It is my number one goal, and that of the team supporting me, to bring the Nolans asset into production as quickly as we can to take advantage of the powerful supply and demand trends coalescing in the NdPr space. Your management team is focused on this, to the exclusion of all else.

In closing, I would like to thank my team for their enormous contribution over the year, the Board for its ongoing strategic guidance, and staff and contractors for the dedication to the Company's success. On behalf of Arafura I want to thank the shareholders who have remained 'loyal to the cause' and supportive of the business – I believe your patience will be rewarded.

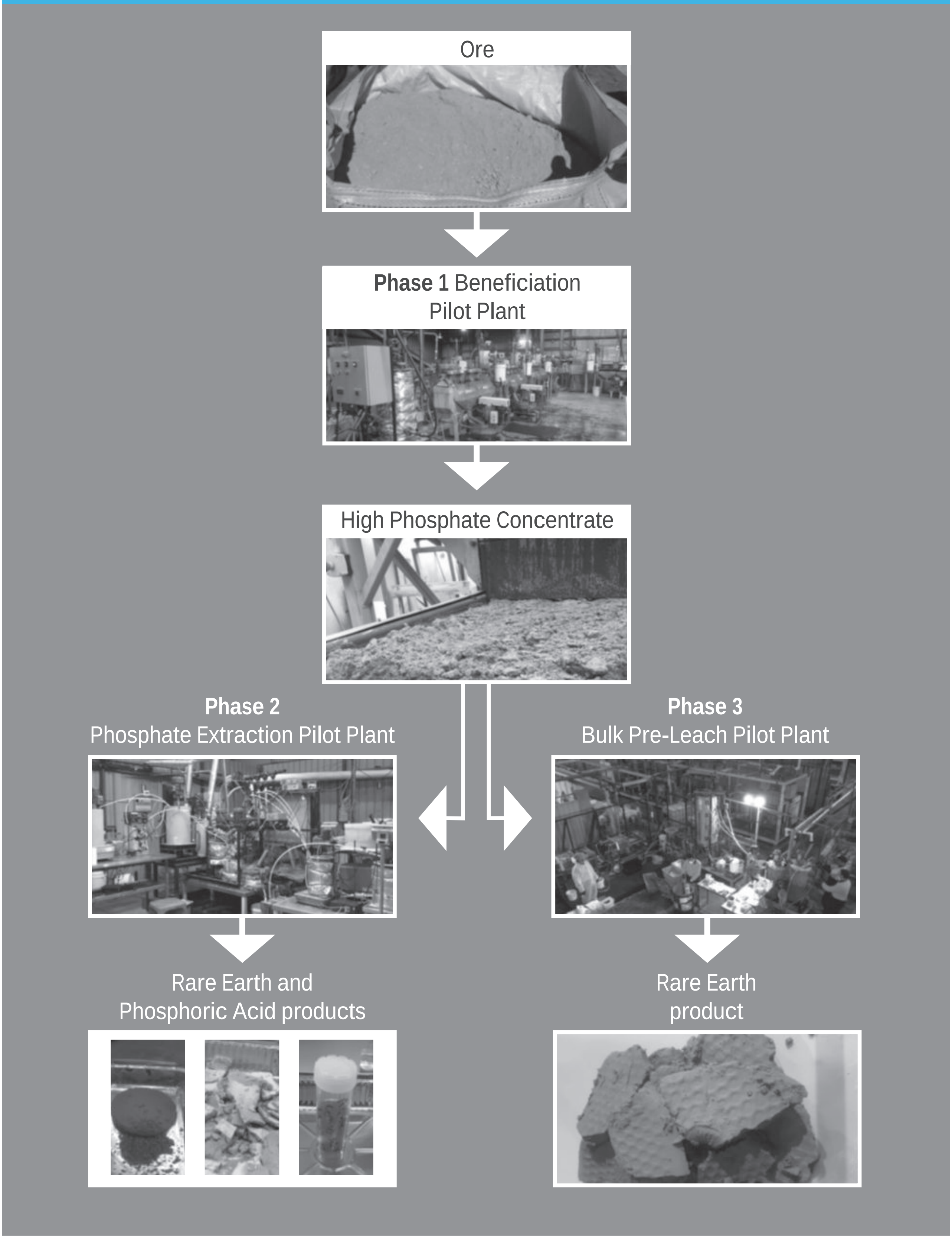
Gavin Lockyer,
Managing Director

NDPR OXIDE SUPPLY & DEMAND



OPERATIONS REPORT

FLOWSHEET PILOTING PERFORMING TO EXPECTATIONS



OPERATIONS REPORT (continued)

The Company unveiled a process flowsheet in June 2016 that has the potential to deliver a more competitive and efficient project with greater capacity to withstand cyclical downturns in rare earth prices. The planned annual rare earths output of the project is 14,000 tonnes of TREO equivalent, which includes 3,600 tonnes of the project's most valuable rare earth product, NdPr oxide.

Improvements to the process include the introduction of lower cost phosphoric acid into the pre leach circuit of the rare earth extraction flowsheet, which also enables the commercial production of 110,000 tonnes of merchant-grade phosphoric acid each year. When coupled with parallel process enhancements in comminution and beneficiation, this results in higher rare earth recoveries, lower operating costs, and reduced waste streams.

Large scale piloting of the Nolans process is being undertaken in seven separate phases throughout 2017. The purpose of piloting is to collect key operational, performance, process, mass balance, mechanical engineering and materials handling data for inclusion in the Nolans DFS which is scheduled for 2018. Importantly, Arafura is partnering with independent engineering firm SNC-Lavalin to review the performance of each stage of piloting to support the basis of design and final capital and operating cost estimates.

The first three phases of piloting are complete and have delivered results that have met expectations. Each phase is being operated on a continuous basis over several days.

PHASE 1 BENEFICIATION

The beneficiation pilot plant was hosted by ALS Metallurgy in Perth and used whole-of-ore flotation to process approximately 14 tonnes of ore feed to generate 5 tonnes of a clean HPC. The concentrate features enhanced recoveries of NdPr (>82%) and phosphate (>90%), and efficient rejection of iron and aluminium contaminants.

PHASE 2 PHOSPHATE EXTRACTION

The phosphate extraction pilot plant operated over a ten-day period in March 2017 with independent advice from phosphoric acid expert organisation Prayon Technologies of Belgium. The program successfully validated the operational performance of the three key components of phosphate extraction – pre-leach, rare earth recovery and acid regeneration – via the production of two NdPr-rich solid products (grading 11% and 34% TREO) and merchant-grade phosphoric acid.

PHASE 3 BULK PRE-LEACH

The bulk pre-leach pilot plant ran for five days during July 2017 at SGS Metallurgy in Perth. It replicated the upstream (pre-leach) portion of the Phase 2 pilot at a much-increased scale to generate sufficient feedstock for the balance of the flowsheet piloting program. The pilot consumed 4.3 tonnes of HPC to produce 2 tonnes of NdPr-rich pre-leach residue as feed to the Phase 4 acid bake pilot plant.

RESOURCE ASSESSMENT ALIGNS WITH FLOWSHEET DEVELOPMENT

Arafura undertook a comprehensive and detailed program of geochemical and geological analysis of the Nolans Bore resource to support the reclassification of all mineralised material types in the resource. This work identified that over two-thirds of the project's higher-confidence Measured and Indicated resource inventory are phosphate-rich material types that yielded elevated NdPr and P_2O_5 recoveries in beneficiation piloting.

The Nolans Bore geological block model is now populated by a large array of attributes of economic, metallurgical and environmental interest that can more effectively support Arafura's mine planning, flowsheet piloting and regulatory assessment activities. These include the proportion of the reclassified material types and an estimate of several contaminant elements, the mix of which are important to the performance efficiency of the Nolans flowsheet.

GOVERNMENTS RECOGNISE OF THE IMPORTANCE OF THE NOLANS PROJECT

In September 2016, Arafura was pleased to advise that in recognition of the Nolans project's strategic and advanced nature (both commercially and in terms of regulatory approvals), and the potential net economic benefit of the project to regional Australia, the Australian Government conferred upon it Major Project Facilitation status, joining only seventeen other significant development projects around Australia.

The program provides Nolans with a tailored facilitation service to support a timely and efficient approvals process, including coordination of all relevant Australian and Northern Territory government processes so that they occur simultaneously and without delay.

The awarding of MPF services for Nolans through to the end of 2019 follows Major Project Status being granted by the Northern Territory Government in 2014.

Further manifestation of the project's importance to the future development and diversification of Australia's economy lies in the Australian Government's continued support through its R&D Tax Incentive initiative. Arafura received a $1.8 million tax refund under this program in 2017, and has been the recipient of over $35 million to support its metallurgical flowsheet development since the program's inception in 2010.

OPERATIONS REPORT (continued)

ENVIRONMENTAL ASSESSMENT

Substantial progress towards the completion of environmental assessment of the Nolans project by Northern Territory regulators was evident during the year.

Following the lodgement and public review of the project's draft EIS in 2016, Arafura received and reviewed 503 comments from 21 stakeholder groups as the basis for the preparation of a Supplementary report (EIS Supplement), which was lodged with the NTEPA in February.

The NTEPA has reviewed the information provided in the EIS Supplement and has requested further data to assist with its assessment. The key areas being addressed by Arafura and its environmental consultants are surface and ground water, and waste rock and tailings management.

Arafura expects to formally submit the requested information in September, and anticipates the environmental assessment process being completed by the end of 2017.

POSITIVE IMPACT ON NdPr PRICES BY CHANGING MARKET DYNAMICS

NdFeB permanent magnets remain the largest sector for rare earths consumption, using predominately NdPr oxide through conversion to magnet alloy. These magnets find wide application in motor vehicles, personal electronic devices, and industrial applications. The automotive industry currently consumes more than 25%, or approximately 30,000 tonnes, of all NdFeB magnets, including for power steering, braking, seats, locks and windows. The forecast growth in hybrid, plug-in hybrid and battery EVs will also see increased permanent magnet, and therefore NdPr oxide, use in the traction motor for these vehicles.

The key enablers for the adoption of EV technology include:

Regulatory support for the encouragement of EV purchases. This has been effective in several countries. Examples include Norway and China, where consumers are offered subsidies often tied to vehicle efficiency, the UK where there is free access to restricted

OPERATIONS REPORT (continued)

city centres, and California where there are mandated low emissions. China's EV initiatives are targeting 5 million cumulative sales by 2020 and is supported by the establishment of 4.8 million charging points across the country.

Consumer demand for this technology, driven by the desire for lower carbon emissions and access to new associated technologies including autonomous driving, vehicle sharing and utilisation systems. Electrification is one of the major trends for the global automotive industry.

Battery technology enhancements, which have been significant in recent years and critical to EV growth as it improves functionality by producing vehicles with a greater driving range, resulting in the production of more affordable EV technology.

The comparative cost of owning and operating an EV versus a petrol/diesel-fuelled vehicle is a critical component in the buyer's decision making. These are expected to be comparable by the early part of the 2020s and could be a catalyst for exponential growth in demand for EVs.

Increased investment toward electrifying power trains by most automakers is now evident, with EV production targets now on the rise. Whilst EV production accounted for only 1% of global auto output in 2016, it is forecast to be at 14% by 2025.

Global consumption of rare earths was approximately 137,000 tonnes in 2016, which included 36,600 tonnes of NdPr oxide. Demand for rare earths is forecast to increase at a CAGR of 5% out to 2025, with NdPr oxide expected to outperform at 8% CAGR. Future market fundamentals for NdPr oxide are driven by strong growth for NdFeB magnets for use in high-end motor applications, EV drivetrains, wind power generators, and electronic devices.

NdPr oxide prices commenced a sustained upward trend in January 2017 after an eighteen-month period of subdued prices that followed the lifting of China's rare earth export restrictions in May 2015. Prices increased by 44% in the six months to July 2017, driven mainly by:

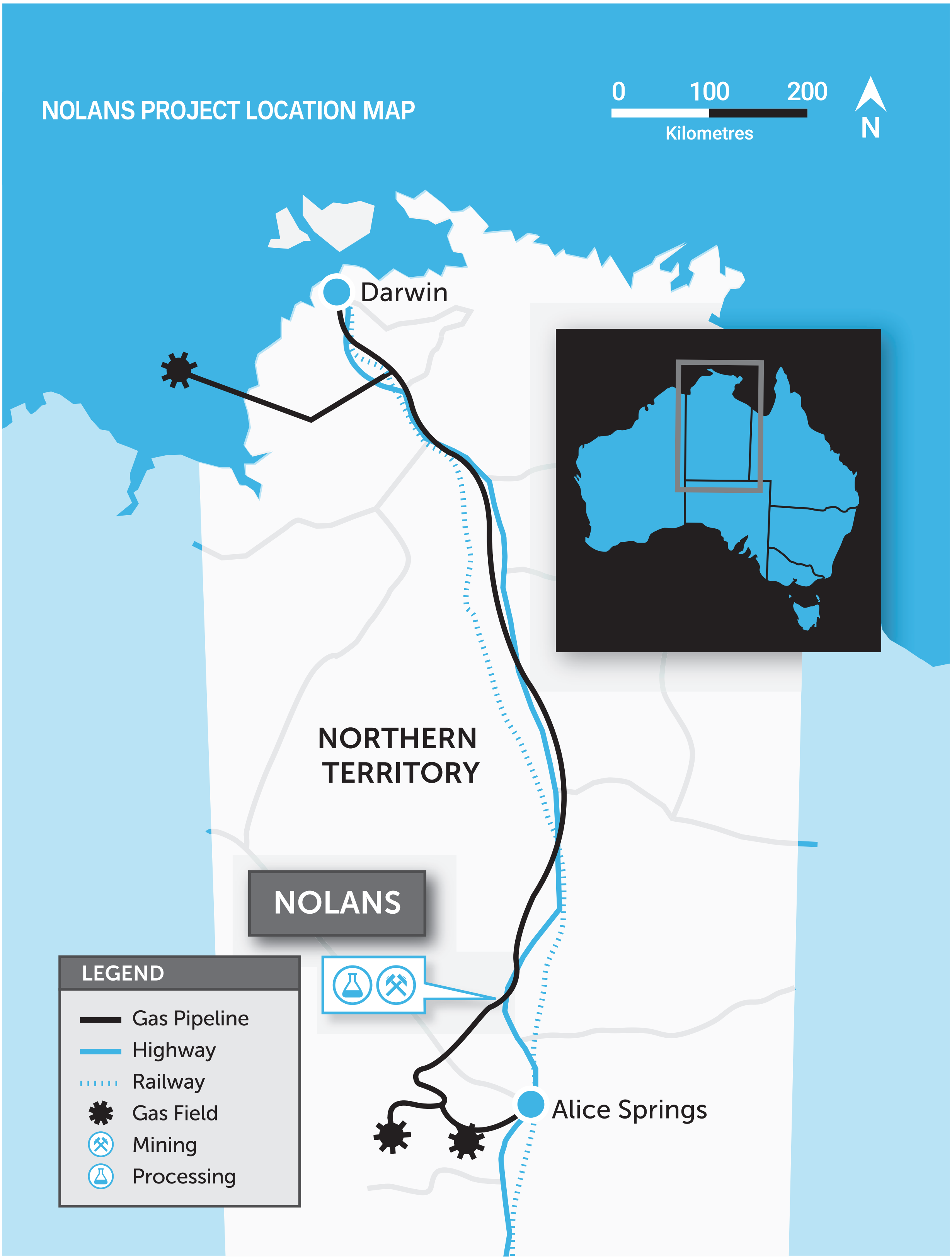
- Chinese Government-led initiatives to enforce higher environmental standards on China-based rare earth producers and to reduce the quantity of material available from illegal sources;
- Leading producer China Northern Rare Earth Group Hi-Tech continuing to withhold product from the market and hold out for higher prices; and
- Increased buying interest from NdFeB magnet manufacturers.

Global NdFeB magnet production has increased by 33% since 2013, with all of the growth attributed to Chinese manufacturing capacity.

At the same time, China is aggressively pursuing its Made in China 2025 strategy to maintain its standing as a world manufacturing power in the face of increasing competition from emerging low manufacturing cost countries. Several of the key focus areas of its strategy, such as energy saving, new energy vehicles, robotics and automated machine tools, are closely aligned with China's NdPr oxide production and NdFeB magnet manufacturing capabilities. This could lead to an increased amount of Chinese NdFeB magnet production being consumed by local manufacturers, currently at 67%, and China becoming reliant on imported raw materials, including NdPr oxide, to meet its domestic requirements.

There are many recent examples of China-based entities pursuing acquisitions and investment in the rare earths sector. This supports the view that China is seeking to secure NdPr oxide feedstock for its domestic NdFeB magnet manufacturing supply chain to support the expansion of medium and high-end manufacturing capacity, a key objective of the Made in China 2025 strategy.

OPERATIONS REPORT (continued)



OPERATIONS REPORT (continued)

EXPLORATION

AILERON-REYNOLDS (RARE EARTHS)

Field work on Arafura's cornerstone exploration package during 2016-17 was limited to activities that support EIS studies at Nolans, including regolith mapping and groundwater monitoring. In addition, the Northern Territory Department of Primary Industry and Resources granted five ELs in the district to Arafura, including two ELs over the bore field area of the Nolans project.

JERVOIS (BASE AND PRECIOUS METALS; VANADIUM; TUNGSTEN)

In June 2017 Rox Resources Ltd (ASX: RXL, or Rox) notified Arafura of its decision to discontinue with the 70 per cent earning obligation, after having spent in excess of $1.1 million on the project tenement EL29701. This triggers the formation of a joint venture between the parties in the proportion Rox 51 per cent (and manager) - Arafura 49 percent, limited to the exploration and potential development of base and precious metals on the tenement.

MT PORTER (GOLD)

Arafura retains a gold production royalty on several tenements owned and operated by Ark Mines Ltd (ASX: AHK, or Ark) in the Pine Creek region of the Northern Territory. Ark has progressed the Mount Porter gold project to mine-ready status, and continues to explore adjacent tenements to expand its in-ground gold inventory. In July 2017 Ark advised it had suspended its near-term plans to mine Mount Porter due to its inability to conclude the extension of a toll treatment agreement with the operator of a nearby gold mill.

NAMEPLATE PRODUCTION

The Nolans project's nameplate production target of 14,000 tonnes per annum of TREO equivalent is based on the development of Measured and Indicated Mineral Resources at Nolans Bore. The Mineral Resources were estimated and reported by the Company (refer to ASX announcement 7/6/17) following the guidelines of the JORC Code 2012.

COMPETENT PERSONS STATEMENT

The information in this report that relates to Exploration Results and Mineral Resources is based on information compiled by Mr Kelvin Hussey, a Competent Person who is a Member of the Australian Institute of Geoscientists. Mr Hussey is a full-time employee of Arafura Resources Limited. Mr Hussey has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC 2012). Mr Hussey consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

NOLANS BORE MINERAL RESOURCES

RESOURCES	TONNES million	RARE EARTHS TREO %	PHOSPHATE P_2O_5 %	NdPr enrichment %
Measured	4.9	3.2	13	26.1
Indicated	30	2.7	12	26.4
Inferred	21	2.3	10	26.5
TOTAL	56	2.6	11	26.4

As at 7 June 2017. 1% TREO cut-off grade applied. Numbers may not compute due to rounding. "NdPr enrichment" is the proportion of TREO comprising Nd_2O_3 and Pr_6O_{11}.

OPERATIONS REPORT (continued)

GLOSSARY

CAGR	Compound annual growth rate
DFS	Definitive feasibility study
EIS	Environmental impact statement
EL	Exploration licence
EV	Electric vehicle
FOB	Free on board
FY	Financial year
HEV	Hybrid electric vehicle
HPC	High phosphate concentrate
NdFeB	Neodymium-Iron-Boron (magnet)
NdPr	Neodymium-Praseodymium (rare earths)
NTEPA	Northern Territory Environment Protection Agency
OEM	Original equipment manufacturer
P_2O_5	Phosphate
R&D	Research and development
SPP	Share Purchase Plan
TREO	Total rare earth oxide

ARAFURA
RESOURCES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

DIRECTORS' REPORT

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 2017.

DIRECTORS

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

I. Kowalick

C. Tonkin

T. Grose

C. Ding (1)

Q. Zhang (1)

G. Lockyer

(1) Mr Ding retired as a Director on the 18th of November 2016. He was replaced by Mr Zhang.

PRINCIPAL ACTIVITIES

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

(a) Nolans Project engineering studies and Pilot Programs;

(b) Mining and associated infrastructure, social and environmental feasibility evaluations; and

(c) Mineral exploration, definition and development.

DIVIDENDS – ARAFURA RESOURCES LIMITED

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

OPERATING AND FINANCIAL REVIEW

Arafura Resources Limited incurred a group loss of $3,413,332 for the 30 June 2017 period. The loss is significantly less than the 2016 financial year loss of $31,924,936 that was primarily driven by a large impairment recognised on deferred evaluation expenditure.

Arafura has had a successful 2017 financial year. The Company was able to raise a considerable amount of money ($6,764,740) through private placements and through a share purchase plan open to shareholders. These capital raisings boosted the cash balance of the Company and allowed the continuation of the Nolans Pilot Program. However, despite the fact Arafura was able to raise additional funds, the Company continues its efforts to conserve cash.

With an improved financial position, Arafura will now close out its Piloting Programs in 2018 and look forward to presenting the shareholders with a Definitive Feasibility Study on the exciting Nolans Nd/Pr Project.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

- During the year Arafura was able to raise significant funds though private placements to institutional investors as well as a share purchase plan open to shareholders. The private placements and share purchase plans raised $3,631,240 and $3,133,500 respectively. The amounts raised boosted the cash balance of the Company considerably and allowed the Company to move forward with the Nolans Pilot Program.
- The Company announced on the 3rd of January it had received an R&D rebate of $1,753,013 further increasing the Company's cash balance. The incentive is a jointly administered program between AusIndustry and the Australian Taxation Office. The Company has received $35.2 million from R&D rebates since the incentive began.
- Arafura has undertaken pilot testwork during the year. The Company has been able to complete two phases of the seven phases in the Nolan's Pilot Program as at 30 June 2017. Phase 1 was successfully completed with the results reported in February (ASX: ARU 6/02/17). Phase 2 results were reported during July (ASX: ARU 10/07/17) and were met with approval from Prayon Technologies an independent phosphoric acid expert. The Phase 3 bulk pre-leach pilot plant was successfully run over 5 days in July 2017 after the reporting period ended.
- In February 2017, Arafura submitted the Environmental Impact Statement Supplementary Report for the Nolans NdPr Project to the Northern Territory Environment Protection Authority (NTEPA). NTEPA has now reviewed the information provided and has requested some further information. Arafura will continue to work with consultant GHD and expects the additional information to be lodged with NTEPA in September 2017.

DIRECTORS' REPORT (continued)

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

The Company issued options to selected employees in July 2017. A total of 2,055,000 options were issued at a strike price of $0.15 and vest over a period of three years.

No other matters or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect:

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Group's principal focus is the development of the Nolans NdPr project. In the next twelve months there will be ongoing studies which are aimed at piloting the reconfigured process flowsheet and progressing the regulatory approvals process. It is also anticipated that the Company will begin its Definitive Feasibility Study early in the 2018 calendar year.

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 (continued)

INFORMATION ON DIRECTORS

Ian Kowalick
Non-Executive Chairman

Qualifications: BSc (Hons), BEc

Ian Kowalick has qualifications in science, engineering, economics, and finance. Ian has worked in technical and project consulting, economic and business analysis for resource companies, banking, and investment. From 1995 to 2000, he held the most senior management position in the South Australian public sector, and is currently the Chairman of the South Australian Forestry Corporation Board. Ian is a board member of the Northern Territory Power and Water Corporation.

He is the Chairman of Arafura's Remuneration and Nomination Committee, and a Member of the Audit and Risk Committee.

First Appointed

19 December 2002.

Other current Directorships

SA Forestry Corporation.

NT Power and Water Corporation.

Medvet Science Pty Ltd.

Former Directorships in the last 3 years

Syngas Limited.

Central Australia Phosphate Limited.

Special Responsibilities

Chairman of the Board.

Chairman of the Remuneration and Nomination Committee.

Member of the Audit and Risk Committee.

Interests in shares and options

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

Gavin Lockyer
Managing Director

Qualifications: BBus, ACA, FTA

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 several 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.

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 20 years his career has exposed him to business practices in North America, Europe, and Australasia.

First Appointed

23 July 2013.

Other current Directorships

None.

Former Directorships in the last 3 years

Syngas Limited.

Central Australia Phosphate Limited.

Special Responsibilities

None.

Interests in shares and options

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

584,014 ordinary shares in Arafura Resources Limited (Indirect).

DIRECTORS' REPORT (continued)

INFORMATION ON DIRECTORS (continued)

Chris Tonkin
Non-Executive Director

Qualifications: BSc (Hons) Metallurgy and Chemistry, BA Economics and Politics, MBA

Chris Tonkin has over 35 years' experience as a senior business executive with a broad industry background in business generation, management, and strategy development. 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 he was Head of Natural Resources Project Finance for many years, leading a very successful team of project financiers.

In early 2012, Chris was appointed Chief Executive Officer and Managing Director of Arafura Resources Limited and assisted the Company through a difficult period before stepping down to concentrate on his project advisory activities as Executive Director of Capital Advisory Services Pty Ltd and Managing Director of Catalyst Capital Solutions Pty Ltd.

Chris is a Graduate of the Australian Institute of Company Directors and a Member of the Finance and Treasury Association. He is a member of Arafura Resources' Remuneration and Nomination and Audit and Risk Committees and is also Chairman of Lakes Oil NL.

First Appointed

1 January 2011.

Other current Directorships

Lakes Oil N.L.

Former Directorships in the last 3 years

None.

Special Responsibilities

Member of the Audit and Risk Committee.

Member of the Remuneration and Nomination Committee.

Interests in shares and options

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

Terry Grose
Non-Executive Director

Qualifications: BEc, MBA

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 several 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.

Terry worked in Hong Kong for over a decade in a senior financial role before establishing his own business, Grose International, a commercial and financial consultancy firm 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 several companies. Terry is a Fellow of the Australian Institute of Company Directors and is currently a director of Yirra Yaakin Aboriginal Corporation, Rolltrak Spares Pty Ltd and Central Desert Native Title Services Limited.

He is Chairman of Arafura's Audit & Risk Committee and a member of the Remuneration & Nomination Committee.

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

103,334 ordinary shares in Arafura Resources Limited (Direct).

DIRECTORS' REPORT (continued)

INFORMATION ON DIRECTORS (continued)

Quansheng Zhang
Non-Executive Director

Qualifications: Doctoral degree in Engineering and Masters degree in Geophysical Prospecting

Quansheng Zhang is based in Nanjing in the Peoples Republic of China and is the General Manager of Hong Kong East China Non-Ferrous Mineral Resources Co Ltd (HKECE). Mr. Zhang has over 30 years of mineral prospecting and exploration experience, and expertise in mineral resource surveys and geophysics.

First Appointed

18 November 2016.

Other current Directorships

None.

Former Directorships in the last 3 years

None..

Special Responsibilities

None.

Interests in shares and options

None.

Cungen Ding
Former Non-Executive Director

Qualifications: B. Geological Survey

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

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

Mr Ding retired from the Board on 18 November 2016.

First Appointed

03 March 2015.

Other current Directorships

None.

Former Directorships in the last 3 years

Chairman of China Africa Resources PLC (now Pembridge Resources).

Special Responsibilities

None.

Interests in shares and options

None.

Peter Sherrington
Company Secretary

Qualifications: 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.

DIRECTORS' REPORT (continued)

MEETING OF DIRECTORS

The number of meetings of the Company's Board of Directors, the number of meetings each Board Committee held and the number of meetings attended by each Director throughout the year ended 30 June 2017 were:

	Board meetings		Committee Meetings			
Director	Full meetings of Directors held	Full meetings of Directors attended	Audit & Risk Committee meetings held	Audit & Risk Committee meetings attended	Remuneration & Nomination Committee held	Remuneration & Nomination Committee attended
Chris Tonkin	14	14	4	3	4	4
Cungen Ding	6	5	-	-	-	-
Gavin Lockyer	14	12	-	-	-	-
Ian Kowalick	14	14	4	4	4	4
Terry Grose	14	14	4	4	4	4
Quansheng Zhang	8	7	-	-	-	-

As at 30 June 2017 the Committees of Arafura are comprised of the following:

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

REMUNERATION REPORT (AUDITED)

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

Non-Executive and Executive Directors:

- Ian Kowalick
- Chris Tonkin
- Terry Grose
- Quansheng Zhang [(1)]
- Cungen Ding [(1)]
- Gavin Lockyer

Other Key Management Personnel

- Peter Sherrington – Chief Financial Officer and Company Secretary
- Richard Brescianini – General Manager of Strategic Development and Exploration
- Brian Fowler – General Manager of Northern Territory and Sustainability

[(1)] Mr Ding retired as a Director on the 18th of November 2016. He was replaced by Mr Zhang.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED) (continued)

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.

Its 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.

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 2017 financial year, all compensation arrangements for Directors and the Group's Executives were determined at Board level after taking into account the competitive rates prevailing in the market place.

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

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

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

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 were reviewed by the Remuneration & Nomination Committee. The Committee considered market conditions and its remuneration from the prior year and recommended that there be no changes to the remuneration of Non-Executive Directors. The Chairman's fee is determined independently to the fees of Non-Executive Directors based on comparative roles in the external market. The current base fees for the Chairman and Non-Executive Directors have not changed since July 2011.

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 2017	Year ended 30 June 2016
Base Fees		
Chairman	$151,200	$151,200
Other Non-Executive Directors	$78,400	$78,400
Additional Fees		
Audit & Risk Committee Member or Chairman	*	*
Remuneration & Nomination Committee Member or Chairman	*	*

REMUNERATION REPORT (AUDITED) (continued)

- 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 2016.

The above fees are per annum and include superannuation.

The Non-Executive Directors do not receive retirement allowances or performance based bonuses.

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

Base pay and benefits

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

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay for Senior Executives is reviewed annually to ensure the Executive's pay is competitive with the market. An Executive's pay is also reviewed upon promotion. There are no guaranteed base pay increases fixed in any Senior Executive's contract. Executives are also entitled to a Company funded car park.

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 2016.

Managing Director Mr. Gavin Lockyer's contract remained unchanged for the 2017 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. The Committee considers market rates of salaries for levels across the Company, which have been based on industry data provided by a range of employment agencies.

For the year ended 30 June 2017, KPI's were set for the Managing Director which were not incentive linked.

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 18 November 2016, the Board has absolute discretion to:

- invite eligible persons to apply for a specified number of options;
- set performance criteria (typically 1 year service period); and
- set option exercise prices and expiry dates.

Under the terms and conditions of the plan, options lapse in a number of circumstances including cessation as an employee or for fraudulent or dishonest actions.

No bonus payments other than as indicated in the remuneration table on page 23 were paid during the reporting period.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED) (continued)

Other transactions with key management personnel

In the 2016 and 2017 financial year, there were no transactions with individuals at any time.

Use of remuneration consultants

The Remuneration & Nomination Committee utilised Mercer Consulting (Australia) Pty Ltd (Mercer) in the year ended 30 June 2017. Mercer was paid $18,150 for the Board and Executive remuneration consulting and this led to the Board concluding that it was reasonable to freeze executive salaries for a further year.

Relationship between remuneration and Company performance

Executives receive their TFR which is not linked to Company performance, however they can also receive short and long-term incentives which are used to encourage and reward the performance of Executive Directors, officers and senior management for their role in achieving corporate objectives that are directly linked to the creation of shareholder wealth.

For the year ended 30 June 2017, no performance or incentive KPI's were set for Executives or the Managing Director and no bonuses were received. No options were issued during the year ended 30 June 2017, current option interests are shown on page 26.

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.

For the 2017 financial year, the key management personnel include the Directors of Arafura Resources Limited and those Executives that report directly to the Managing Director being:

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

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED) (continued)

Voting and comments made at the Company's 2016 Annual General Meeting

Arafura Resources Ltd received more than 93% of "for" votes on its remuneration report for the 2016 financial year.

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

	Short–term benefits			Post–employment benefits	Long-term benefits		Share-based payments	
2017 Name	Cash salary and fees $	Bonus $	Non-monetary benefits $	Super-annuation $	Long service leave $	Termination benefits $	Options $	Total $
Non-Executive Directors								
I Kowalick	135,000	-	-	16,200	-	-	-	151,200
T Grose	71,598	-	-	6,802	-	-	-	78,400
C Tonkin	59,500	-	-	18,900	-	-	-	78,400
C Ding (1) (2)	32,669	-	-	-	-	-	-	32,669
Q Zhang (1) (2)	45,731	-	-	-	-	-	-	45,731
Executive Directors								
G Lockyer	396,100	-	2,269	30,000	7,286	-	9,307	444,962
Other key management personnel (Group)								
P Sherrington	311,100	-	2,269	30,000	5,829	-	2,215	351,413
R Brescianini	266,100	-	2,269	35,000	5,189	-	2,215	310,773
B Fowler	247,100	-	-	35,000	4,860	-	2,215	289,175
Total	**1,564,898**	**-**	**6,807**	**171,902**	**23,164**	**-**	**15,952**	**1,782,723**

(1) Mr Ding resigned from the Company on the 18th of November 2016. Mr Zhang replaced him from this date.

(2) Mr Zhang and Mr Ding's Director fees are paid to AoZhong International Mineral Resources Pty Ltd, a wholly owned Australia based subsidiary of their employer East China Mineral Exploration and Development Bureau.

	Short–term benefits			Post–employment benefits	Long-term benefits		Share-based payments	
2016 Name	Cash salary and fees $	Bonus $	Non-monetary benefits $	Super-annuation $	Long service leave $	Termination benefits $	Options $	Total $
Non-Executive Directors								
I Kowalick	135,000	-	-	16,200	-	-	-	151,200
T Grose	70,000	-	-	8,400	-	-	-	78,400
C Tonkin	70,000	-	-	8,400	-	-	-	78,400
C Ding	78,400	-	-	-	-	-	-	78,400
Executive Directors								
G Lockyer	394,510	-	3,928	30,000	7,103	-	20,808	456,349
Other key management personnel (Group)								
P Sherrington	311,100	-	2,338	30,000	5,682	-	4,785	353,905
R Brescianini	266,100	-	2,338	35,000	5,014	-	4,785	313,237
N Graham (1)	109,299	-	389	23,571	-	169,750	(5,585)	297,424
B Fowler	247,100	-	-	35,000	4,696	-	4,785	291,581
Total	**1,681,509**	**-**	**8,993**	**186,571**	**22,495**	**169,750**	**29,578**	**2,098,896**

(1) Mr Graham resigned from the Company as of the 1st of September 2015.

REMUNERATION REPORT (AUDITED) (continued)

C. Service agreements

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

Remuneration and other terms of employment for the Managing Director and other key management personnel are also formalised in service agreements. Each of these agreements provide for the provision of performance-related cash bonuses and other benefits including, parking and participation where eligible in the Arafura Share Option Plan. Other major provisions of the agreements relating to remuneration are set out below for the 2017 financial year:

G Lockyer, Managing Director

- No term of agreement.
- Base salary inclusive of superannuation, for the year ended 30 June 2017 of $426,100.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to six months of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to six months of the base salary.

P Sherrington, Chief Financial Officer and Company Secretary

- No term of agreement.
- Base salary inclusive of superannuation, for the year ended 30 June 2017 of $341,100.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to three months of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to three months of the base salary.

R Brescianini, General Manager Strategic Development and Exploration

- No term of agreement.
- Base salary inclusive of superannuation, for the year ended 30 June 2017 of $301,100.
- 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.

B Fowler, General Manager of Northern Territory and Sustainability.

- No term of agreement.
- Base salary inclusive of superannuation for the year ended 30 June 2017 of $282,100.
- 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 (continued)

REMUNERATION REPORT (AUDITED) (continued)

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 last approved by shareholders at the 2016 annual general meeting and will be up for consideration again in 2019.

Options are granted for no consideration and generally have a term of three years. 100% of each tranche vests and is exercisable in accordance with the tables below.

The terms and conditions of each grant of options affecting remuneration in current or future reporting periods are as follows:

Grant date	Date vested and exercisable	Expiry date	Exercise price	Model option value	% Vested
18-Jul-13	18-Jul-14	18-Jul-16	$0.140	$0.040	100%
30-Sep-14	30-Sep-15	30-Sep-18	$0.105	$0.018	100%
30-Sep-14	30-Sep-16	30-Sep-18	$0.105	$0.022	100%
30-Sep-14	30-Sep-17	30-Sep-18	$0.105	$0.025	0%
20-Nov-14	20-Nov-15	20-Nov-18	$0.105	$0.016	100%
20-Nov-14	20-Nov-16	21-Nov-18	$0.105	$0.017	100%
20-Nov-14	20-Nov-17	22-Nov-18	$0.105	$0.018	0%

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

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.

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

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

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

Name	Number of options granted during the year	Value of options at grant date $	Number of options vested during the year	Number of options lapsed during the year	Value of lapsed options $	Year lapsed options were granted
Directors of Arafura Resources Limited						
I J Kowalick	-	-	-	-	-	-
T Grose	-	-	-	-	-	-
C Tonkin	-	-	-	-	-	-
C Ding	-	-	-	-	-	-
Q Zhang	-	-	-	-	-	-
G Lockyer	-	-	1,000,000	2,500,000	102,500	2013
Other key management personnel of the group						
P Sherrington	-	-	200,000	800,000	32,800	2013
R Brescianini	-	-	200,000	800,000	32,800	2013
B Fowler	-	-	200,000	800,000	32,800	2013

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 (continued)

REMUNERATION REPORT (AUDITED) (continued)

Shares provided on exercise of remuneration options

No options were converted to shares by any Key Management Personnel during the 30 June 2017 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

Loans to Directors and Executives

There were no loans to Directors and/or Executives during the reporting period or at 30 June 2017.

Other transactions with key management personnel

In the 2016 and 2017 financial year, there were no transactions with individuals at any time.

Movements in option interests of Key Management Personnel for 30 June 2017

2017	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of year	Vested and exercisable	Unvested
Directors of Arafura Resources Limited							
I J Kowalick	-	-	-	-	-	-	-
T Grose	-	-	-	-	-	-	-
C Tonkin	-	-	-	-	-	-	-
C Ding	-	-	-	-	-	-	-
Q Zhang	-	-	-	-	-	-	-
G Lockyer	5,500,000	-	-	(2,500,000)	3,000,000	2,000,000	1,000,000
Key management personnel of the Group							
P Sherrington	1,400,000	-	-	(800,000)	600,000	400,000	200,000
R Brescianini	1,400,000	-	-	(800,000)	600,000	400,000	200,000
B Fowler	1,400,000	-	-	(800,000)	600,000	400,000	200,000
Total	**9,700,000**	**-**	**-**	**(4,900,000)**	**4,800,000**	**3,200,000**	**1,600,000**

Movements in share interests of Key Management Personnel for 30 June 2017

2017	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year (on market trades)	Balance at the end of the year
Directors of Arafura Resources Limited				
I J Kowalick	577,007	-	-	577,007
T Grose	20,000	-	83,334	103,334
C Tonkin	100,000	-	-	100,000
Q Zhang	-	-	-	-
C Ding	-	-	-	-
G Lockyer	334,014	-	250,000	584,014
Key management personnel of the Group				
P Sherrington	-	-	135,000	135,000
R Brescianini	85,054	-	-	85,054
B Fowler	-	-	-	-
Total	**1,116,075**	**-**	**468,334**	**1,584,409**

This is the end of the audited remuneration report.

DIRECTORS' REPORT (continued)

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.

Proceedings on behalf of the Company

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

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

Non-audit services

No non-audit services were provided by BDO in the 2017 financial year. As a result the Board is satisfied that the auditor is compatible with, and did not compromise, the auditor's independence requirements of the Corporations Act 2001.

Details of the provision of audit services by BDO Audit (WA) Pty Ltd, can be found at note 17 of this financial report.

AUDITOR'S INDEPENDENCE DECLARATION

FOR THE YEAR ENDED 30 JUNE 2017

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 28.

Signed in accordance with a resolution of the Directors.

G. Lockyer, Managing Director

I. Kowalick, Chairman

Perth, Western Australia
20 September 2017

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Australia

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

As lead auditor of Arafura Resources Limited for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

2. No contraventions of any applicable code of professional conduct in relation to the audit.

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

Jarrad Prue, Director

BDO Audit (WA) Pty Ltd
Perth, 20 September 2017

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2017

OUR APPROACH TO CORPORATE GOVERNANCE

Arafura Resources Limited ACN 080 933 455 (Company) has established a corporate governance framework, the key features of which are set out in this statement. In establishing its corporate governance framework, the Company has referred to the recommendations set out in the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations 3rd edition (Principles & Recommendations). The Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Company's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. In compliance with the "if not, why not" reporting regime, where, after due consideration, the Company's corporate governance practices do not follow a recommendation, the Board has explained its reasons for not following the recommendation and disclosed what, if any, alternative practices the Company has adopted instead of those in the recommendation.

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

Charters

Board

Audit and Risk Committee

Nomination and Remuneration Committee

Policies and Procedures

Process for Performance Evaluations

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

Director and Senior Executive Induction Program

Diversity Policy (summary)

Code of Conduct (summary)

Policy on Continuous Disclosure (summary)

Compliance Procedures (summary)

Shareholder Communication and Investor Relations Policy

Securities Trading Policy

The Company reports below on whether it has followed each of the recommendations during the 2016/2017 financial year (Reporting Period).

The information in this statement is current at 20 September 2017. This statement was approved by a resolution of the Board on 20 September 2017.

Principle 1 – Lay solid foundations for management and oversight

Recommendation 1.1

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

Recommendation 1.2

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

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

CORPORATE GOVERNANCE STATEMENT (continued)

FOR THE YEAR ENDED 30 JUNE 2017

Recommendation 1.3

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

Recommendation 1.4

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

Recommendation 1.5

The Company has a Diversity Policy, which outlines the Company's commitment to ensuring adverse mix of skills and talent exists amongst its directors, officers and employees, to enhance Company performance. The Diversity Policy addresses equal opportunities in the hiring, training and career advancement of directors, officers and employees and also outlines the process by which the Board may set measurable objectives to achieve the aims of its Diversity Policy, with particular focus on gender diversity within the Company. The Diversity Policy does not include requirements for the Board to set measurable objectives for achieving gender diversity (or to assess annually both the objectives and the Company's progress in achieving them), but notes that the Board may do so.

For the Reporting Period, the Board decided not to set measurable objectives for achieving gender diversity. After consideration, the Board decided that the size and nature of the Company's operations meant that establishing meaningful objectives was not practical at this stage.

The Board considers that it can monitor gender diversity without establishing objectives. The Board will reconsider the establishment of measurable objectives for achieving gender diversity as its circumstances change.

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

	Proportion of women
Whole organisation	5 out of 19 (24%)
Senior executive positions (excluding the Managing Director)	0 out of 4 (0%)
Board	0 out of 5 (0%)

Recommendation 1.6

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

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

During the Reporting Period each director, including the Managing Director, completed a questionnaire in accordance with the documented process. The Chairman received a summary of results which were then discussed with the Board as a group. An action list of key areas of focus was discussed and tabled shortly after the reporting period to assess the extent to which the areas of focus have been addressed, and to consider the overall effectiveness of the meeting.

The Nomination and Remuneration Committee conducted its evaluation of the Managing Director in August 2016 and again in April 2017. The evaluation consisted of performance and leadership competencies. It also considered such things as market sentiment and industry activity. KPI's were also finalised in the 2016/17 Reporting Period and will be reviewed regularly.

CORPORATE GOVERNANCE STATEMENT (continued)

FOR THE YEAR ENDED 30 JUNE 2017

Recommendation 1.7

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

During the Reporting Period an evaluation process of the senior executives was completed. The evaluation consisted of a formal review of performance against the core competencies expected of each senior executive. The review also considered what additional training or development could be done to improve or further align each senior executive's actual performance against their expected performance.

Principle 2 – Structure the board to add value

Recommendation 2.1

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

Details of director attendance at Nomination and Remuneration Committee meetings during the Reporting Period are set out in a table in the Directors' Report on page 19 of the Company's 2017 Annual Report.

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

Recommendation 2.2

A profile of each Director setting out their skills, experience, expertise and period of office is set out in the Directors' Report on page 16.

An appropriate mix of director skills, diversity and board size is required to oversee the Company's strategic direction, opportunities, and challenges at all stages of its development towards the goal of commencing production. When considering the appointment of new directors, the Board seeks to recruit individuals with complementary skills, professional qualifications, and experience to meet the expectations of investors and capital markets. In support of this, the Board applies a Skills Assessment to guide its succession planning and director recruitment agenda.

The following strategy statements summarise the current direction of the business and influence the skills and experience required at Board level to oversee its implementation:

- To create wealth for shareholders by using innovation, technology, and good management to deliver the Nolans Project and thus supply Neodymium and other RE products to key markets throughout the world;
- To be a leader in the Rare Earth supply chain by developing the Nolans Project as a low cost, efficient, well-regulated, and reliable supplier of Neodymium products to meet global demand; and
- To remain at the forefront of RE extraction processing technology to ensure that the Company's Nolan's plant will remain world competitive in operating efficiencies and capital and operating costs.

The Board has regularly reviewed its need for renewal and succession planning as Arafura transitions from the exploration and development phase where skills in project development are paramount to a growth period, a changing composition of the Company board will be considered.

- The Board is currently comprised of a majority of non-executive directors (NED's) the majority of whom are classified as independent.
- Following the Company's successful fund raising in early 2017 the Board commenced a search for an additional non-executive director to supplement the skills of the existing Board. With Arafura's focus now on flow sheet optimisation, feasibility studies, engineering and project finance (debt and equity) the Board will look to the appointment of a candidate with skills and experience in project development and direct knowledge of the minerals processing.
- Through appropriate Board renewal over future years, consistent with the Company's strategic direction, the Board will maintain and develop skills and experience of directors in finance, contracts & negotiation, technology and innovation, engineering and construction, audit and accounting, risk management, business strategy, marketing, business development and project management.

The current skills and experience mix of the five current directors is summarised in the following table (full director biographies are shown on pages 16-18).

CORPORATE GOVERNANCE STATEMENT (continued)

FOR THE YEAR ENDED 30 JUNE 2017

Skills and Experience	Description	Directors
Business Strategy	Directors that have reasonable experience in executive strategy positions, including previous managing director, chief executive and/or strategic manager roles.	5
Corporate Governance	Directors that are current or former board members of other publicly listed companies, with emphasis on individuals that currently or formerly chair an audit or remuneration subcommittee. Private Company, not-for-profit and government sector boards are also considered.	5
International Experience	Directors that have worked on projects in regions and countries where Arafura is currently looking to find investment or operate or have a reasonable understanding of same.	4
Technology & Innovation	Professional qualifications/experience in the research development and implementation of minerals processing technologies, Chemical Engineering, Geology, Mining & Rare Earths industry	2
Project Engineering Construction & execution	Practical experience with engineering design and project execution in an executive or senior manager capacity.	2
Project Management	Individuals that carry relevant experience in project manager or executive director roles across large scale projects	4

Recommendation 2.3

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

The status of Directors independence was discussed and determined on the 17 May 2017 Board Meeting. As a result, it was determined that the independent directors of the Company are Ian Kowalick, Terry Grose and Chris Tonkin.

The non-independent director of the Company is Mr Zhang Quansheng, as he is a nominee director appointed by the Company's largest shareholder ECE Nolans Investment Company Pty Ltd.

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

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

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

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

It should be noted that since Mr Tonkin's appointment in 2011, he acted as interim CEO and Managing Director to guide the Company through a transitionary period in 2012/13. Mr Tonkin's role as CEO and Managing Director subsequently ceased on 17 July 2013 (approximately 4 years ago) as Mr Lockyer took this position.

With reference to Arafura's Policy of Assessing the Independence of Directors, the independence of a director is compromised if a director "is, or has been, employed in an executive capacity by the Company or any of its child entities and there has not been a period of at least three years between ceasing such employment and serving on the Board".

Considering that more than three years has passed, there is clearly no contradiction with Arafura's policy with regarding Mr Tonkin's independence.

The length of service of each director is set out in the Directors' Report on pages 16-18 of the Company's 2017 Annual Report.

Recommendation 2.4

The Board has a majority of directors who are independent.

CORPORATE GOVERNANCE STATEMENT (continued)

FOR THE YEAR ENDED 30 JUNE 2017

Recommendation 2.5

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

Recommendation 2.6

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

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

Principle 3 – Act ethically and responsibly

Recommendation 3.1

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

Principle 4 – Safeguard integrity in corporate reporting

Recommendation 4.1

The Board has established an Audit and Risk Committee. The members of the Audit and Risk Committee are Terry Grose (Chair), Ian Kowalick and Chris Tonkin. Each member of the Audit and Risk Committee is a non-executive director, and all members are independent. A profile of each Director setting out their skills, experience, expertise and period of office is set out in the Directors' Report on pages 16-18 of the Company's 2017 Annual Report. The Audit and Risk Committee is structured in compliance with Recommendation 4.1 and Recommendation 7.1.

The Company has also established a Procedure for the Selection, Appointment and Rotation of its External Auditor. The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises.

Candidates for the position of external auditor must demonstrate complete independence from the Company through the engagement period. The Board may otherwise select an external auditor based on criteria relevant to the Company's business and circumstances. The performance of the external auditor is reviewed on an annual basis by the Board.

Details of director attendance at Audit and Risk Committee meetings during the Reporting Period are set out in a table in the Directors' Report on page 19 of the Company's 2017 Annual Report.

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

Recommendation 4.2

Before the Board approved the Company financial statements for the half year ended 31 December 2016 and the full-year ended 30 June 2017 and each of the quarters ending 30 September 2016, 31 December 2016, 31 March 2017 and 30 June 2017, it received from the Managing Director and the Chief Financial Officer a declaration that, in their opinion, the financial records of the Company for the relevant financial period have been properly maintained and that the financial statements for the relevant financial period comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company and the consolidated entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Recommendation 4.3

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

CORPORATE GOVERNANCE STATEMENT (continued)

FOR THE YEAR ENDED 30 JUNE 2017

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

A representative of the Company's auditor, BDO attended the Company's annual general meeting held on 18 November 2016.

Principle 5 – Make timely and balanced disclosure

Recommendation 5.1

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

Principle 6 – Respect the rights of security holders

Recommendation 6.1

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

Recommendation 6.2

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

Recommendation 6.3

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

Recommendation 6.4

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

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

Principle 7 – Recognise and manage risk

Recommendation 7.1

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

Recommendation 7.2

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

Recommendation 7.3

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

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

Recommendation 7.4

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

The report can be found at the website www.arultd.com/about-us/corporate-governance.html.

Principle 8 – Remunerate fairly and responsibly

Recommendation 8.1

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

Recommendation 8.2

Details of remuneration, including the Company's policy on remuneration, are contained in the 'Remuneration Report' which forms of part of the Directors' Report and commences at page 19 of the Company's 2017 Annual Report. This disclosure includes a summary of the Company's policies regarding the deferral of performance based remuneration and the reduction, cancellation or clawback of the performance based remuneration in the event of serious misconduct or a material misstatement in the Company's financial statements.

Recommendation 8.3

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 $	2016 $
Revenue from continuing operations	5	276,439	376,325
Non-capitalised portion of R&D tax incentive rebate	5	847,253	950,727
Loss on tenements		-	(481,679)
Foreign exchange gain/(loss)	5	(780)	12,861
Employee benefits expense	6	(2,247,341)	(2,715,088)
Other expenses	6	(2,210,497)	(1,733,399)
Depreciation and amortisation	6	(46,715)	(55,590)
Finance costs	6	(4,877)	(5,562)
Share Based Payments		(21,313)	(34,001)
Impairment of assets	6	(5,501)	(28,239,530)
Loss before income tax		**(3,413,332)**	**(31,924,936)**
Net (Loss) after income tax for the year		**(3,413,332)**	**(31,924,936)**
Total comprehensive (loss) for the year attributable to owners of Arafura Resources Limited		**(3,413,332)**	**(31,924,936)**
Loss per share attributable to owners of Arafura Resources Limited			
Basic loss per share	19	(0.7)	(7.2)
Diluted loss per share	19	(0.7)	(7.2)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 $	2016 $
CURRENT ASSETS			
Cash and cash equivalents	8	12,471,662	11,543,001
Trade and other receivables		288,752	481,353
Total Current Assets		**12,760,414**	**12,024,354**
NON-CURRENT ASSETS			
Property, plant and equipment		138,929	130,248
Deferred exploration, evaluation and development costs	10	89,751,800	87,308,434
Other assets		240,795	254,044
Total Non-Current Assets		**90,131,524**	**87,692,726**
TOTAL ASSETS		**102,891,938**	**99,717,080**
CURRENT LIABILITIES			
Trade and other payables	11	786,841	486,048
Provisions		208,924	460,678
Total Current Liabilities		**995,765**	**946,726**
NON-CURRENT LIABILITIES			
Provisions		331,324	276,127
Total Non-Current Liabilities		**331,324**	**276,127**
TOTAL LIABILITIES		**1,327,089**	**1,222,853**
NET ASSETS		**101,564,849**	**98,494,227**
EQUITY			
Contributed equity	12	200,590,837	194,128,196
Reserves	13	11,650,663	11,629,350
Accumulated losses	14	(110,676,651)	(107,263,319)
TOTAL EQUITY		**101,564,849**	**98,494,227**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

Consolidated	Notes	Contributed equity $	Equity reserve $	Accumulated losses $	Total equity $
Balance at 30 June 2015		**194,128,196**	**11,595,349**	**(75,338,383)**	**130,385,162**
Loss for the 2016 financial year	14	-	-	(31,924,936)	(31,924,936)
Other comprehensive income		-	-	-	-
Total Comprehensive loss for the year		**-**	**-**	**(31,924,936)**	**(31,924,936)**
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs and tax	12	-	-	-	-
Employee share options – value of employee services	13	-	34,001	-	34,001
Balance at 30 June 2016		**194,128,196**	**11,629,350**	**(107,263,319)**	**98,494,227**
Loss for the 2017 financial year	17	-	-	(3,413,332)	(3,413,332)
Other comprehensive income		-	-	-	-
Total Comprehensive loss for the year		**-**	**-**	**(3,413,332)**	**(3,413,332)**
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs and tax	12	6,462,641	-	-	6,462,641
Employee share options – value of employee services	13	-	21,313	-	21,313
Balance at 30 June 2017		**200,590,837**	**11,650,663**	**(110,676,651)**	**101,564,849**

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 2017

	Notes	Consolidated 30 June 2017 $	Consolidated 30 June 2016 $
Cash flows from operating activities			
Payments to suppliers and employees		(4,455,853)	(4,798,107)
Interest received		280,770	376,068
R&D Incentive rebate - non capitalised portion		847,253	950,727
Interest paid		(4,877)	(5,562)
Net cash (outflow) from operating activities	15	**(3,332,707)**	**(3,476,874)**
Cash flows from investing activities			
Payment for property, plant and equipment		(55,396)	(523)
Proceeds from sale of tenements		313,250	-
Payments for exploration and evaluation		(3,364,107)	(4,072,639)
R&D Incentive rebate - capitalised portion		905,760	2,515,992
Other		-	(51,299)
Net cash (outflow) from investing activities		**(2,200,493)**	**(1,608,469)**
Cash flows from financing activities			
Net proceeds from issue of shares		6,764,740	-
Payments for transaction costs		(302,099)	-
Net cash inflow from financing activities		**6,462,641**	**-**
Net increase/(decrease) in cash and cash equivalents		**929,441**	**(5,085,343)**
Cash at the beginning of the financial year		11,543,001	16,615,482
Effects of exchange rate changes on cash and cash equivalents		(780)	12,862
Cash and cash equivalents at the end of the financial year		**12,471,662**	**11,543,001**

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

INDEX TO THE NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

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 2016.

Historical cost convention

These financial statements have been prepared on a historical cost basis.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are disclosed in note 3.

(b) Going concern

Arafura's financial statements have been prepared on a going concern basis.

(c) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Arafura Resources Limited ('parent entity') as at 30 June 2017 and the results of all controlled entities for the year then ended. Arafura Resources Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

InterCompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Joint arrangements

Under AASB 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement.

Joint Operations

Arafura recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held of incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements, further reference is made at note 22.

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

Joint Ventures

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

(d) Income tax

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

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

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of profit or loss and other comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which any deductible temporary differences can be utilised.

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

Arafura Resources Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated Group under the Tax Consolidation Regime. Arafura Resources Limited is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated Group. The entities in the tax consolidated Group have not yet entered into a tax sharing agreement or a tax funding arrangement but may enter into these types of agreements in the future if it is considered beneficial to the Group to do so.

(e) Cash and cash equivalents

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

(f) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 120 days from the date of recognition for land development and resale debtors, and no more than 30 days for other debtors.

Collection of trade receivables is reviewed on an ongoing basis. Debts, which are known to be uncollectible, are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount for the provision is recognised in the statement of profit or loss and other comprehensive income.

(g) Trade and other payables

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

(h) 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) Loans and receivables

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

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

(i) Property, plant and equipment

(i) Cost

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

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

Subsequent costs are included in the asset's carrying amount or capitalised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

(ii) Depreciation

The depreciable amount of all fixed assets including capitalised lease assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use.

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. All fixed assets depreciated previously on a diminishing value method were changed to a straight line basis of depreciation from 1 October 2009.

Depreciation on assets is calculated over their estimated useful life as follows:

Class of fixed asset	Estimated useful life
Office furniture and fittings	10 years
Office and computer equipment	3 years
Plant and equipment	5 years
Motor vehicles	3 years
Leasehold improvements	10 years

The asset's residual value and useful life are reviewed, and adjusted if appropriate, at each statement of financial performance date.

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

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.

(j) Exploration, evaluation and development costs

(i) Exploration

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

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

(ii) Evaluation

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

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

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

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

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

(k) 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.

(l) Fair value estimation

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

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.

(m) Impairment of non-current assets

Non-current 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.

(n) 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 24.

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

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

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

(o) 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.

(p) 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).

(q) 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.

(r) Contributed equity

Ordinary shares are classified as equity.

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

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

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

(s) 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.

(t) 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 24.

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.

(u) 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.

(v) 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.

(w) 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.

(x) Accounting Standards Issued Not Yet Effective

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below.

i) AASB 9 Financial Instruments

Application date:

Must be applied for financial years commencing on or after 1 January 2018.

Therefore application date for the Company will be 30 June 2019.

Nature of change:

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

The new hedging rules align hedge accounting more closely with the Company's risk management practices. As a general rule it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation.

Impact on initial application:

There will be no impact on the Company's accounting for financial assets and financial liabilities, as the new requirements only effect the accounting for available-for-sale financial assets and the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such financial assets or financial liabilities.

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

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

Application date:

Must be applied for annual reporting periods beginning on or after 1 January 2018.

Therefore application date for the Company will be 30 June 2019.

Nature of change:

An entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This means that revenue will be recognised when control of goods or services is transferred, rather than on transfer of risks and rewards as is currently the case under IAS 18 Revenue.

Impact on initial application:

The impact has been assessed as immaterial to Arafura.

iii) AASB 16 (issued January 2016) – Leases

Application date:

Must be applied for annual reporting periods beginning on or after 1 January 2019.

Therefore application date for the Company will be 30 June 2020.

Nature of change:

IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead all leases are treated in a similar way to finance leases applying IAS 17. The most significant effect of the new requirements will be an increase in lease assets and financial liabilities.

Impact on initial application:

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

NOTE 2: FINANCIAL RISK MANAGEMENT

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

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

The Group holds the following financial instruments:

	2017 $	2016 $
Financial assets		
Cash and cash equivalents	12,471,662	11,543,001
Trade and other receivables	288,752	481,353
	12,760,414	**12,024,354**
Financial liabilities		
Trade creditors	493,609	239,153
Trade and other accruals	292,842	206,368
PAYG and payroll tax liabilities	390	40,527
	786,841	**486,048**

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

(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 limited to the value of a USD bank balance, being USD$3,463.

(ii) 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 2017, Arafura had no such investments.

(iii) 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.

(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:

	2017 $	2016 $
Cash at bank and short-term bank deposits		
Standard & Poor's rating AA-	**12,471,662**	11,543,001

The Group's exposure to credit risk on financial assets that cannot be assessed by reference to external credit ratings is immaterial.

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities for the ability to fund future commitments. Due to the dynamic nature of the underlying businesses, the finance team aims at maintaining flexibility in funding to achieve this goal.

Financing arrangements

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

Maturities of financial liabilities

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

Group – At 30 June 2017	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	786,841	-	-	-	-	786,841	786,841
Fixed rate	-	-	-	-	-	-	-
Total non-derivatives	786,841	-	-	-	-	786,841	786,841

Group – At 30 June 2016	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	486,048	-	-	-	-	486,048	486,048
Fixed rate	-	-	-	-	-	-	-
Total non-derivatives	486,048	-	-	-	-	486,048	486,048

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 Exploration and evaluation expenditure

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

(ii) 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 2016/17 Arafura Resources Limited has received Notice of Registration for the R&D Tax Incentive.

The R&D Tax Incentive is a self-assessment program and as at the date of the signing of this report Arafura has received no notification from AusIndustry and/or the ATO rejecting the registered R&D activities as ineligible R&D or the associated eligible R&D expenditures claimed.

The Group is currently in the process of claiming for expenditure on the eligible registered R&D activities for the 2017 financial year.

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

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

The following critical judgements have been made when applying the entity's accounting policies for the 2016 and 2017 financial year:

(i) Impairment assessment of Exploration and Evaluation cost carried forward.

Details of the Group's impairment assessment of Exploration and Evaluation costs carried forward are found in note 12(b) and 1(j).

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 operating segments are on an arm's length manner similar to transactions with third parties.

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

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

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

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

The segment information provided to the Managing Director and CEO for the reportable segments for the year ended 30 June 2017 is as follows:

CONSOLIDATED	Project evaluation	Exploration	Unallocated	Total
2017				
Segment revenue	905,760	-	1,123,692	2,029,452
Segment expenditure	(2,991,560)	(368,568)	(4,457,838)	(7,817,966)
	(2,085,800)	(368,568)	(3,334,146)	(5,788,514)
Adjusted EBITDA	**-**	**-**	**(3,334,146)**	**(3,334,146)**
Capitalised expenditure	(2,085,800)	(368,568)	-	(2,454,368)
	(2,085,800)	(368,568)	(3,334,146)	(5,788,514)
2016				
Segment revenue	2,515,992	-	1,327,052	3,843,044
Segment expenditure	(31,094,908)	(1,848,039)	(4,448,487)	(37,391,434)
	(28,578,916)	(1,848,039)	(3,121,435)	(33,548,390)
Adjusted EBITDA	**-**	**-**	**(3,121,435)**	**(3,121,435)**
Capitalised expenditure	(28,578,916)	(1,848,039)	-	(30,426,955)
	(28,578,916)	(1,848,039)	(3,121,435)	(33,548,390)
Total segment assets				
2017	76,140,458	13,611,342	13,140,138	102,891,938
2016	74,054,655	13,253,779	12,408,646	99,717,080
Total segment liabilities				
2017	473,735	12,075	841,279	1,327,089
2016	325,830	186,791	710,231	1,222,853

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

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

	2017 $	2016 $
Adjusted EBITDA	**(3,334,146)**	**(3,121,435)**
Finance Costs	(4,877)	(5,562)
Depreciation & amortisation	(46,715)	(55,590)
Share option expense	(21,313)	(34,001)
Impairment on assets	(5,501)	(28,239,530)
Unrealised exchange rate (loss)/gain	(780)	12,861
Loss on tenement sale	-	(481,679)
Loss before income tax	**(3,413,332)**	**(31,924,936)**

NOTE 5: REVENUE

	2017 $	2016 $
Revenue from continuing operations		
Other revenue		
Interest received	**276,439**	376,325
	276,439	376,325
Other Income		
Foreign exchange gain/(loss)	**(780)**	12,861
Non-capitalised portion of R&D Tax Incentive rebate	**847,253**	950,727
	846,473	963,588
Total Revenue	**1,122,912**	1,339,913

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 6: EXPENSES

	2017 $	2016 $
(a) Expenses		
Depreciation		
Depreciation – plant & equipment	**29,766**	38,642
Depreciation – leasehold improvements	**16,949**	16,948
Total depreciation	**46,715**	55,590
Finance costs		
Interest expense	**4,877**	5,562
Total finance costs	**4,877**	5,562
Other expenses		
Accounting and other professional fees	**80,135**	104,677
Audit fees	**57,426**	64,793
Consultants fees	**492,035**	320,667
Employee benefits expense	**2,247,341**	2,715,088
Insurance	**74,110**	88,679
Legal fees	**228,757**	164,260
Share-based employee benefits	**21,313**	34,001
Share registry and stock listing fees	**74,603**	60,641
Other expenses	**1,203,431**	929,682
Total other expenses	**4,479,151**	4,482,488
Impairment of assets		
Capitalised exploration expenditure	**5,501**	28,239,530
Total impairment of assets	**5,501**	28,239,530
Loss on sale of tenements	**-**	481,679
Total loss on sale of tenements	**-**	481,679

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 7: INCOME TAX

The reconciliation between tax expense and the product of accounting loss before tax multiplied by Group's applicable income tax rate is as follows:

	2017 $	2016 $
Income tax expense		
Current tax	**-**	-
Loss before income tax	**3,413,332**	31,924,936
Income tax/ (benefit) @ 30%	**1,024,000**	9,577,481
Tax effect of amounts which are not deductible in calculating taxable income:		
• Entertainment	**(5,930)**	(4,300)
• Share-based payments	**(6,394)**	(10,201)
• Sundry items not deductible (assessable)	**254,176**	284,400
• Deferred tax assets relating to tax losses and temporary differences not recognised	**(2,354,558)**	(2,597,432)
• Temporary differences not recognised	**1,088,942**	7,249,948
• Research and Development refundable offset	**-**	-
Total income tax benefit	**-**	-

The franking account balance at year end was $nil (2016 $nil)

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

	2017	2016
Deferred tax assets		
Tax losses	**53,085,893**	51,296,170
Other temporary differences	**307,528**	282,656
Total deferred tax assets	**53,393,421**	51,578,826
Deferred tax liabilities	**(26,925,543)**	(26,137,796)
Net Deferred tax assets	**26,467,878**	24,441,030

Net deferred tax assets have not been bought 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.

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 8: CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	2017 $	2016 $
Cash at bank and in hand	**1,321,662**	1,093,001
Bank deposits	**11,150,000**	10,450,000
	12,471,662	11,543,001

(1) All bank deposits mature within three months of 30 June 2017

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

	2017 $	2016 $
Balances as above	**12,471,662**	11,543,001
Balances as per statements of cash flows	**12,471,662**	11,543,001

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

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 9: NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

Consolidated	Office furniture and fittings $	Office and computer equipment $	Plant and equipment $	Motor vehicles $	Land, Buildings and leasehold additions $	Total $
Year Ended 30 June 2016						
Opening book amount	22,340	44,563	8,260	-	110,154	185,317
Additions	521	-	-	-	-	521
Disposals - Cost	-	(94,505)	-	-	-	(94,505)
Disposals - Accumulated Depreciation	-	94,505	-	-	-	94,505
Depreciation charge	(8,371)	(24,109)	(6,162)	-	(16,948)	(55,590)
Closing book amount	14,490	20,454	2,098	-	93,206	130,248
At 30 June 2016						
Cost or fair value	82,823	679,760	99,916	203,308	169,488	1,235,295
Accumulated depreciation	(68,333)	(659,306)	(97,818)	(203,308)	(76,282)	(1,105,047)
Net book amount	14,490	20,454	2,098	-	93,206	130,248
Year ended 30 June 2017						
Opening book amount	14,490	20,454	2,098	-	93,206	130,248
Additions	-	55,396	-	-	-	55,396
Depreciation charge	(5,180)	(22,910)	(1,676)	-	(16,949)	(46,715)
Closing book amount	9,310	52,940	422	-	76,257	138,929
At 30 June 2017						
Cost or fair value	82,823	735,156	99,916	203,308	169,488	1,290,691
Accumulated depreciation	(73,513)	(682,216)	(99,494)	(203,308)	(93,231)	(1,151,762)
Net book amount	9,310	52,940	422	-	76,257	138,929

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 10: NON-CURRENT ASSETS – DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

	2017 $	2016 $
Exploration, evaluation and development costs carried forward		
Balance at beginning of year	**87,308,434**	114,923,897
Capitalised exploration expenditure	**363,067**	553,094
Capitalised evaluation expenditure [(a)]	**2,991,560**	3,368,644
Carrying value of disposed Mt Porter and Frances Creek tenements	**-**	(781,679)
Impairment of exploration expenditure	**(5,501)**	(513,266)
Impairment evaluation expenditure	**-**	(27,726,264)
R&D Tax Incentive rebate receipted against capitalised evaluation costs	**(905,760)**	(2,515,992)
Balance at end of year	**89,751,800**	87,308,434

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

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

NOTE 11: CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	2017 $	2016 $
Current		
Trade creditors [(a)]	**493,609**	239,153
Trade and other accruals	**292,842**	206,368
PAYG and payroll tax liabilities	**390**	40,527
	786,841	486,048

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

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

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 12: EQUITY – CONTRIBUTED EQUITY

	2017 Shares	2016 Shares	2017 $	2016 $
Share capital				
Ordinary shares				
• Fully paid	**546,896,402**	441,270,644	**200,590,837**	194,128,196

(a) Movements in ordinary share capital

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

Date	Details	Number of shares	Issue Price	$
30-Jun-15	**Balance**	**441,270,644**		**194,128,196**
	Nil	-		-
30-Jun-16	**Balance**	**441,270,644**		**194,128,196**
23/02/2017	Private Placement	53,100,588	0.068	3,610,840
27/02/2017	Private Placement	300,000	0.068	20,400
4/04/2017	Share Purchase Plan	52,225,170	0.060	3,133,500
	Capital Raising Costs	-		(302,099)
30-Jun-17	**Balance**	**546,896,402**		**200,590,837**

(i) Capital risk management

The Group's objectives when managing capital is to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amounts of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as current borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial performance plus net debt.

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 13: EQUITY – RESERVES

	2017 $	2016 $
Reserves		
Share-based payments reserve	**11,650,663**	11,629,350
	11,650,663	11,629,350
Movements		
Share-based payments reserve		
Balance 1 July 2016	**11,629,350**	11,595,349
Option expense	**21,313**	34,001
Balance 30 June 2017	**11,650,663**	11,629,350

(a) Nature and purpose of reserves

(i) Share-based payments reserve

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

NOTE 14: EQUITY – ACCUMULATED LOSSES

	2017 $	2016 $
Balance 1 July 2016	**(107,263,319)**	(75,338,383)
Net loss for the year	**(3,413,332)**	(31,924,936)
Balance 30 June 2017	**(110,676,651)**	(107,263,319)

NOTE 15: STATEMENT OF CASH FLOWS RECONCILIATION

	2017 $	2016 $
Net (loss)	**(3,413,332)**	(31,924,936)
Depreciation and amortisation	**46,715**	55,590
Impairment on assets	**5,501**	28,239,530
Loss on tenements	**-**	481,679
Unrealised FX loss/(gain)	**780**	(12,861)
Share-based employee benefits	**21,313**	34,001
(Increase)/decrease in trade & other receivables	**(18,325)**	77,471
Increase/(decrease) in trade & other payables	**38,750**	(259,229)
Increase/(decrease) in other provisions	**(14,109)**	(168,119)
Net cash (outflow) from operating activities	**(3,332,707)**	(3,476,874)

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 16: KEY MANAGEMENT PERSONNEL COMPENSATION

(a) Key management personnel compensation

	2017 $	2016 $
Short-term employee benefits	**1,571,705**	1,690,502
Post-employment benefits	**171,902**	188,571
Long-term benefits	**23,164**	22,495
Termination benefits	**-**	169,750
Share-based payments	**15,952**	29,578
	1,782,723	2,098,896

Detailed remuneration disclosures are provided in sections A-E of the remuneration report on pages 20 to 26.

(a) Equity instrument disclosures relating to key management personnel

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

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

(ii) Loans to key management personnel

In the 2016 and 2017 financial year, there were no loans to individuals at any time.

(iii) Other transactions with key management personnel

In the 2016 and 2017 financial year, there were no transactions with individuals at any time.

NOTE 17: 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.

	2017 $	2016 $
1. Audit services		
BDO Audit (WA) Pty Ltd		
Audit and review of financial reports	**57,426**	64,794
Total remuneration for audit services	**57,426**	64,794

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 18: COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

A contract was agreed to for Pilot Plant work in June 2017. A purchase order was raised for the amount of $596,337 which Arafura is committed to paying within the first few months of the 17/18 financial year.

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

(b) Lease commitments:

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

	2017 $	2016 $
Within one year	**314,924**	282,353
Later than one year but not later than five years	**314,837**	139,340
Later than five years	**-**	-
	629,761	421,693

(c) Mining tenement commitments

	2017 $	2016 $
Within one year	**296,100**	286,308
Later than one year but not later than five years	**1,450,869**	1,368,862
Later than five years	**-**	-
	1,746,969	1,655,170

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.

(d) Contingencies

No contingent liabilities exist at reporting date.

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 19: EARNINGS PER SHARE

	2017 Cents	2016 Cents
Basic loss per share Basic loss per share (cents per share)	**(0.72)**	(7.2)
Diluted loss per share Diluted loss per share (cents per share)	**(0.72)**	(7.2)

	2017 $	2016 $
Net Earnings/(loss)	**(3,413,332)**	(31,924,936)
Earnings/(loss) used to calculate basic earnings per share	**(3,413,332)**	(31,924,936)
Earnings/(loss) used to calculate diluted earnings per share	**(3,413,332)**	(31,924,936)

	2017 Number of shares	2016 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	**472,296,026**	441,270,644
Weighted average number of ordinary shares used in calculating diluted earnings per share	**472,296,026**	441,270,644
Weighted average number of ordinary shares from option conversions which are dilutive and potential ordinary shares that are not used in calculation of diluted earnings per share	**-**	-

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

NOTE 20: 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 2017 owns 100% of the issued ordinary shares of Arafura Rare Earths Pty Ltd, Arafura Rare Earths Processing Pty Ltd, Arafura Land Holdings Pty Ltd and Arafura Iron Pty Ltd. The ultimate parent entity and ultimate controlling party is Arafura Resources Limited which at 30 June 2017 owns 100% of the issued ordinary shares of Arafura Rare Earths Pty Ltd, Arafura Rare Earths Processing Pty Ltd, Arafura Land Holdings Pty Ltd and Arafura Iron Pty Ltd.

(b) Subsidiaries

Interests in subsidiaries are set out in note 21.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 16.

(d) Transactions with related parties

There were no transactions with related parties in the year ended 30 June 2017.

(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.

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

(f) Loans to/from related parties

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

(g) Terms and conditions

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

NOTE 21: 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 2017 %	Equity holding 2016 %
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 Rare Earths Processing Pty Ltd	Australia	Ordinary	100	100

NOTE 22: INTERESTS IN POSSIBLE JOINT VENTURES/ OPERATIONS

Rox Resources Ltd (Rox) holds a 51 per cent interest in the base and precious metal rights on Arafura's EL 29701, located 280 kilometres north-east of Alice Springs. Arafura holds the residual 49 per cent interest. In June 2017 Rox Resources Ltd (ASX: RXL, or Rox) notified Arafura of its decision to discontinue with the 70 per cent earning obligation, after having spent in excess of $1.1 million on the project tenement EL29701. This triggers the formation of a joint venture between the parties in the proportion of Rox 51 per cent (and manager) and Arafura 49 percent, limited to the exploration and potential development of base and precious metals on the tenement.

NOTE 23: EVENTS OCCURRING AFTER THE REPORTING DATE

The Company issued options to selected employees in July 2017. A total of 2,055,000 options were issued at a strike price of $0.15 and vest over a period of three years.

No other matter or circumstance has arisen since 30 June 2017 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.

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 24: SHARE-BASED PAYMENTS

Employee option plan

The establishment of the Arafura Resources Limited Employee Share Option Plan (ESOP) was approved by shareholders at the 2016 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:

Grant date	Expiry date	Exercise price	Balance at start of year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of year Number	Vested and exercisable at end of year Number
Consolidated – 2017								
18-Jul-13	18-Jul-16	$0.140	5,650,000	-	-	(5,650,000)	-	-
30-Sep-14	30-Sep-18	$0.105	3,345,000	-	-	(45,000)	3,300,000	2,200,000
20-Nov-14	20-Nov-18	$0.105	3,000,000	-	-	-	3,000,000	2,000,000
Total			11,995,000	-	-	(5,695,000)	6,300,000	4,200,000
Weighted average exercise price			$0.12	-	-	$0.14	$0.11	$0.11
Consolidated – 2016								
10-Jan-13	31-Dec-15	$0.230	1,878,000	-	-	(1,878,000)	-	-
18-Jul-13	18-Jul-16	$0.140	6,650,000	-	-	(1,000,000)	5,650,000	5,650,000
30-Sep-14	30-Sep-18	$0.105	4,845,000	-	-	(1,500,000)	3,345,000	1,115,000
20-Nov-14	20-Nov-18	$0.105	3,000,000	-	-	-	3,000,000	1,000,000
Total			16,373,000	-	-	(4,378,000)	11,995,000	7,765,000
Weighted average exercise price			$0.13	-	-	$0.17	$0.12	$0.13

The weighted average remaining contractual life of the share options outstanding at the end of the period was 1.31 years (2016: 1.25 years).

(a) Options

No options were issued during the reporting year or ay year end.

(b) Employee share scheme

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

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 30 JUNE 2017

(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:

	2017 $	2016 $
Options issued under the executive & employee option plan	**21,313**	34,001
	21,313	34,001

NOTE 25: PARENT ENTITY FINANCIAL INFORMATION

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

Arafura Resources Ltd (Parent)	2017 $	2016 $
Statement of Financial Position		
Current assets	**12,759,384**	12,023,327
Total assets	**102,891,939**	99,534,635
Current Liabilities	**995,765**	764,279
Total Liabilities	**1,327,089**	1,040,407
Shareholders Equity		
Issued Capital	**200,590,837**	194,128,196
Reserves		
Option Reserve	**11,650,663**	11,629,350
Accumulated Loss	**(110,676,650)**	(107,263,318)
Loss for the year	**(3,413,332)**	(31,924,936)
Total comprehensive loss	**(3,413,332)**	31,924,936

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 to note 21 for full disclosure of these items.

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 2017 and of the performance for the year ended on that date for the consolidated entity.

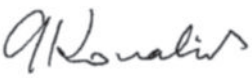
(2) In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

(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 20 to 26 of the Directors' report (as part of the audited Remuneration Report), for the year ended 30 June 2017 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. Kowalick, Chairman
20 September 2017

INDEPENDENT AUDITOR'S REPORT

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To the members of Arafura Resources Limited

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Opinion

We have audited the financial report of Arafura Resources Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, 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, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the Corporations

Act 2001, including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Report section of our report. We are independent of the Group in accordance with the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT (continued)

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ACCOUNTING FOR EXPLORATION AND EVALUATION ASSETS

Key audit matter	How the matter was addressed in our audit
At 30 June 2017 the carrying value of the Deferred Exploration and Evaluation Asset was $89,751,800 (2016: $87,308,434) as disclosed in note 12 of the Financial Report. As the carrying value of the Deferred Exploration and Evaluation Asset represents a significant asset of the Group, we considered in necessary to assess whether any facts or circumstances exist to suggest that the carrying amount of this asset may exceed its recoverable amount. Judgement is applied in determining the treatment of exploration expenditure in accordance with Australian Accounting Standard AASB 6 Exploration for and Evaluation of Mineral Resources. In particular: • Whether the conditions for capitalisation are satisfied; • Which elements of exploration and evaluation expenditures qualify for recognition; and • Whether facts and circumstances indicate that the exploration and evaluation assets should be tested for impairment.	Our procedures included, but were not limited to: • Obtaining a schedule of the areas of interest held by the Group and assessing whether the rights to tenure of those areas of interest remained current at balance date; • Considering the status of the ongoing exploration programmes in the respective areas of interest by holding discussions with management, and reviewing the Group's exploration budgets, ASX announcements and directors' minutes; • Considering whether any such areas of interest had reached a stage where a reasonable assessment of economically recoverable reserves existed; • Verifying, on a sample basis, exploration and evaluation expenditure capitalised during the year for compliance with the recognition and measurement criteria of AASB 6; • Considering whether any facts of circumstances existed to suggest impairment testing was required; and • Assessing the adequacy of the related disclosures in Note 10 of the Financial Report

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors 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.

INDEPENDENT AUDITOR'S REPORT (continued)

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In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the

Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf
This description forms part of our auditor's report.

REPORT ON THE REMUNERATION REPORT

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 20 to 26 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Arafura Resources Limited, for the year ended 30 June 2017, complies with section 300A of the Corporations Act 2001.

Responsibilities

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.

BDO Audit (WA) Pty Ltd

Jarrad Prue, Director

BDO Audit (WA) Pty Ltd
Perth, 20 September 2017

SHAREHOLDER INFORMATION

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

1. Statement of issued capital at 31 August 2017:

a) Distribution of fully paid ordinary shareholders:

Size of holding	Number of shareholders	Number of shares
100,001 and Over	549	431,930,880
10,001 to 100,000	2,762	97,465,177
5,001 to 10,000	1,430	11,726,915
1,001 to 5,000	1,783	5,271,598
1 to 1,000	1,013	501,832
	7,537	546,896,402

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 2017, there existed 2,999 shareholders who held less than a marketable parcel of shares.

2. Substantial shareholders at 31 August 2017 as per their notices:

Name	Ordinary shares %
J P Morgan Nominees Australia Limited	21.33
ECE Nolans Investment Company Pty Ltd	20.06

SHAREHOLDER INFORMATION (continued)

3. Quotation

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

As at 31 August 2017, the twenty largest shareholders held 291,486,984 of the fully paid ordinary shares in Arafura Resources Limited and they are:

No.	Name	Shares	% of issued
1	J P Morgan Nominees Australia Limited	116,638,908	21.33
2	ECE Nolans Investment Company Pty Ltd	109,699,833	20.06
3	HSBC Custody Nominees (Australia) Limited	14,527,797	2.66
4	Citicorp Nominees Pty Limited	11,643,621	2.13
5	BNP Paribas Noms Pty Ltd	4,613,290	0.84
6	Mr Jin Koo Lee	4,263,291	0.78
7	Kaos Investments Pty Limited	3,900,000	0.71
8	Mr David John Harrison	3,076,009	0.56
9	Mr Zhigang Wang	2,894,278	0.53
10	Merrill Lynch (Australia) Nominees Pty Limited	2,878,520	0.53
11	BNP Paribas Nominees Pty Ltd	2,554,715	0.47
12	SBI Investments (Pr) LLC	2,354,049	0.43
13	Mr Julian Paul Leach	1,897,614	0.35
14	Miss Lei Bao	1,788,506	0.33
15	National Nominees Limited	1,697,304	0.31
16	Gule Investments Pty Ltd	1,597,792	0.29
17	Tridnt Investments Pty Ltd	1,450,000	0.27
18	Mr Dachang Yu	1,360,000	0.25
19	Ms Qinyuan Yao	1,358,457	0.25
20	Mr Christopher David Johnson	1,293,000	0.24
		291,486,984	

SHAREHOLDER INFORMATION (continued)

Tenement reference	Project	Holder	Nature of interest (note (2))	Interest at beginning of year	Interest at end of year	Notes
ML 26659	Nolans, NT	Arafura Rare Earths Pty Ltd	Mineral Lease	100%	100%	Application Lodged
ML 30702				100%	100%	Application Lodged
ML 30703				100%	100%	Application Lodged
ML 30704				100%	100%	Application Lodged
EMEL 30510			Extractive Mineral Exploration Licence	100%	0%	Surrendered
EL 28473	Aileron–Reynolds, NT	Arafura Resources Ltd	Exploration Licence	100%	100%	
EL 28498				100%	100%	
EL 29509				100%	100%	
EL 31095				100%	100%	
EL 30160				100%	0%	Surrendered
EL 31096				100%	100%	
EL 31097				100%	100%	
EL 31224				100%	100%	
EL 31284				100%	100%	
EL 29701	Jervois, NT	Arafura Resources Ltd	Exploration Licence	100%	100%	Rox Resources Ltd (RXL) has acquired 51% of the base and precious metal rights, and has opted not to acquire up to 70% of the base and precious metals rights under the farm-in. A joint venture (JV) to explore and develop the base and precious metal rights will now be formed between RXL (51%) and Arafura (49%). RXL will manage the JV.

ARAFURA
RESOURCES LIMITED

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