ANNUAL REPORT 2016

ARAFURA RESOURCES LIMITED

ABN 22 080 933 455

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

CONTENT

ANNUAL REPORT
2016

CORPORATE DIRECTORY

DIRECTORS	**Ian Kowalick** (Chairman and Non-Executive Director) **Gavin Lockyer** (Managing Director) **Chris Tonkin** (Non-Executive Director) **Terry Grose** (Non-Executive Director) **Cungen Ding** (Non-Executive Director)
COMPANY SECRETARY	**Peter Sherrington**
ANNUAL GENERAL MEETING TO BE HELD AT	ANZAC House, Gallipoli Room 28 St George's Terrace Perth Western Australia
TIME	10.00am (WST)
DATE	Friday, 18 November 2016
PRINCIPAL REGISTERED OFFICE IN AUSTRALIA	Level 3, 263 Adelaide Terrace Perth Western Australia 6000
SHARE REGISTRY	**Link Market Services Ltd** Level 4, 152 St Georges Terrace Perth Western Australia 6000
AUDITOR	**BDO Audit (WA) Pty Ltd** 38 Station Street Subiaco Western Australia 6008
SOLICITORS	**Johnson Winter and Slattery** Level 4, 167 St Georges Terrace Perth Western Australia 6000
BANKERS	Westpac Banking Corporation 109 St Georges Terrace Perth Western Australia 6000
STOCK EXCHANGE LISTING	Arafura Resources Limited shares are listed on the Australian Stock Exchange under the ticker code "ARU".
WEBSITE ADDRESS	**www.arultd.com**

CHAIRMAN'S REPORT

In May 2016, Arafura reached a significant milestone with the submission of the Environment Impact Statement ('EIS') to the Northern Territory Environment Protection Authority and the Australian Government's Department of the Environment and Energy.

Dear Shareholder

On behalf of your Board of Directors, it is my pleasure to present the 2016 Annual Report.

In the past year Arafura has successfully completed a number of important initiatives and reached milestones that have significantly enhanced the Nolans Project, located in the Northern Territory.

These initiatives have delivered a technically and economically enhanced process flowsheet based on the phosphate-rich material found in the Nolans Bore resource. This leverages its natural advantage as a world-leading source of the magnet-feed rare earths neodymium and praseodymium ('NdPr') and also delivers important operational and capital cost efficiencies. Furthermore, it diversifies the revenue streams with the addition of a quality phosphoric acid product that can be sold into the granular fertiliser industry.

These major enhancements have been driven by the ongoing challenges faced by resources industries where the flow of capital for new projects continues to be very cautious in response to the slowdown in the global economy, and in particular China. The rare earths sector is not immune from this but recent market interest in lithium investments shows the market understands the longer-term drivers of demand for rare earths.

The Company continued to closely monitor events in China, where stockpiling activities from policy changes in early 2015 have imposed a ceiling on short-term rare earth prices.

Importantly, the long-term demand fundamentals for NdPr were reaffirmed during the year through ongoing discussions, executed government policies, increased investor interest in clean energy and technological advancements in consumer electronics.

Key to this is NdPr, the critical raw material input for the manufacture of permanent magnets that are necessary in the make-up of electric, hybrid and conventional motor vehicles, wind turbines and consumer electronics. Increasing efforts into minimizing the size and weight of these magnets for consumer electronics together with the expanding production of electric and hybrid vehicles alongside conventional types, will support the demand for permanent magnets. The forecast annual demand growth for magnets, and therefore NdPr, remains at a robust 10 per cent for the next decade.

NdPr will account for a significant portion of revenue from Nolans given its endowment in the resource. The work the Company has done to target project efficiencies and enhance processing outcomes, including increased recovery of NdPr, means it is well positioned to capitalise on the positive medium- to long term fundamentals for NdPr.

The initiatives also achieved material reductions to the commodity, funding and processing risks of the project. Coupled with the substantial reductions in the capital expenditure – which has almost halved since Arafura stated its intention of improving Nolans' capital efficiency in 2013 – the project's fundability has been significantly enhanced. The initial capital to construct Nolans now stands at US$680 million, but most importantly, operating costs have been driven down to a highly competitive US$6.23 per kilogram of final rare earth product.

Bolstering Nolans' fundability is the advancement of the environmental approvals process. In May 2016, Arafura reached a significant milestone with the submission of the Environment Impact Statement ('EIS') to the Northern Territory Environment Protection Authority and the Australian Government's Department of the Environment and Energy. The EIS is the culmination of a comprehensive risk assessment into the potential environmental impact of Nolans, and the investment of more than $7 million since studies commenced in 2008.

The EIS also contains investigations into the potential socioeconomic impacts of Nolans. Key findings include the creation of a peak workforce of between 400 and 500 workers during construction and up to 300 jobs in ongoing operations. The Company continues to earn its social licence with the community, and our engagement with key stakeholders, both local and further afield, assumes increased importance and vigilance.

While the short-term outlook for the rare earths sector remains subdued, Arafura continues to work at ensuring the project's capital and operating parameters are optimised and that it is ready for commercialisation. Outcomes from these comprehensive initiatives by the Company have delivered a project which has greater capacity to withstand cyclical downturns and is better aligned to expectations from the rare earths market, which continues to favour supply security particularly for critical elements such as NdPr.

On behalf of your Board, I would like to thank Managing Director Gavin Lockyer, the management team, and all staff and contractors for their outstanding efforts during the past year. Their ongoing work to lower key project risks will aid in bringing Nolans into production, and ensure all stakeholders benefit in the long term.

I would also like to thank shareholders for your ongoing support as we work towards building a sustainable NdPr company.

Yours sincerely,

Ian Kowalick
Chairman

MANAGING DIRECTOR'S REVIEW

Arafura remains in a robust financial position with an A$11.5 million cash balance at the end of the reporting period.

Arafura Resources fulfilled a number of important objectives as we moved closer to ensuring the Nolans Project comes into production as a sustainable, economically robust and competitive operation.

Some difficult decisions were made this year which included further organisational restructuring to drive cost efficiencies and a slowdown in test programs to enable time to review Arafura's extensive historical technical database. This review was aimed at identifying opportunities that could provide improvements and efficiencies to the process flowsheet prior to undertaking further expensive test programs. The outcomes of these decisions have driven a smaller team of committed professionals to present a revised project configuration with significant capital, operational and process improvements on which we can now build.

In addition to the de-risking and diversification outcomes achieved, Arafura continued to advance the environmental approvals process and progressed the collaboration agreement for the project's offshore refining facility.

Sentiment towards the resources market, including the rare earths sector, remained subdued during the year. Despite this, shoots of optimism for the long-term fundamentals of the Company's key magnet-feed rare earths – neodymium and praseodymium ('NdPr') – emerged. NdPr remains front-and-centre in applications that support growth in the renewable energy and consumer electronics sectors. Most notably, electric traction motors at the heart of the electric and hybrid motor vehicle industry require rare earth magnets and the demand forecast for NdPr remains at 10 per cent per annum over the next decade. Electrification of the automotive industry is beginning to take hold as battery technologies improve further and we have already seen a surge of market interest in key technology minerals such as lithium and cobalt. We must position ourselves to take advantage of this window of opportunity when NdPr prices and capital markets improve.

STRENGTHENING NOLANS FOUNDATION

In FY2016, Arafura continued with efforts to identify additional capital and operating efficiencies at Nolans. In November 2015 and May 2016 respectively, the Company advised of further reductions in the project's capital (21%) and operating (15%) expenditure following independent engineering analysis, targeted process testwork and environmental impact statement ('EIS') studies. These latter studies also helped in identifying a 20 per cent increase in the project's resource inventory, with higher confidence Measured and Indicated Resources now accounting for two-thirds, or 974,000 tonnes, of total contained rare earths.

MANAGING DIRECTOR'S REVIEW (CONTINUED)

DE-RISKING AND DIVERSIFYING NOLANS

In keeping with Arafura's strategy to realise further capital and operating cost savings, the Company advised in June 2016 of substantial process efficiencies at Nolans. This followed the extensive review of previous piloting and bench-scale results and minimum new testwork programs that had identified numerous improvements to the existing project structure and process, delivering a more competitive and operationally efficient project with greater scope to weather cyclical downturns in commodity prices.

Key to this is the leveraging of the phosphate-rich mineralogy of the Nolans Bore resource that hosts enhanced concentrations of NdPr. By allowing these unique geological characteristics to guide mining and processing, the flow-on benefits for Nolans are numerous. These include:

- An additional revenue source with annual output of 110,000 tonnes of a merchant-grade phosphoric acid product;
- Higher overall rare earth recovery rates by 21%;
- Simplification of unit operations in the beneficiation plant, extraction plant and separation plant areas;
- Reduced environmental impact at the Nolans site with a substantial reduction in reagent use, water and generation of waste streams;
- A further 28% reduction in operating costs to a highly competitive US$6.23 per kilogram of total rare earth oxide ('TREO') produced;
- Initial capital lowered to US$680 million, inclusive of 20% contingency; and
- Deferment of expected capital expansion to beyond the initial financing period, therefore enhancing fundability of Nolans to potential financiers.

Targeting phosphate-rich material in the resource has also resulted in an adjustment to the planned annual rare earths output to 14,000 tonnes of TREO equivalent over a minimum 20-year operational life. This adjustment delivers a project that is better aligned with market expectations for an emerging NdPr producer.

These improvements and adjustments have materially reduced risks on several fronts, including technical and funding. In addition, the production of phosphoric acid reduces the project's marketing risk. Taken together, these three factors present Nolans as a more attractive investment proposition to financiers.

Another key aspect driving the commercialisation of Nolans is a collaboration agreement with Korean chemical multinational OCI Company Limited over the project's offshore separation plant. Early in 2016 the agreement progressed to a memorandum of understanding ("MOU"). Arafura has since been working with OCI to finalise a site feasibility report for the plant to be located in South Korea, and progressing commercial terms for a joint venture agreement (subject to successful completion of site feasibility).

ADVANCING THE APPROVALS PROCESS

In May 2016, Arafura reached a significant milestone in the regulatory approvals process with the lodging of the Nolans EIS. The extensive work for the EIS, which commenced in 2008, comprised comprehensive and wide-ranging studies and assessments into surface and ground water, biodiversity, Aboriginal and cultural heritage, socioeconomic impacts, transport, radiation, air quality, noise, rehabilitation and cumulative impacts.

The extensive and detailed nature of the studies provides Arafura with confidence that all identified project impacts and risks can be mitigated through careful management control. The public review period for the EIS recently concluded and Arafura will continue to liaise closely with regulators and other stakeholders to work through the environmental approvals process during the balance of CY2016.

IDENTIFYING INTERNAL EFFICIENCIES

Throughout the year, the Company further reduced overhead and administration costs while maintaining a significant level of project-related expenditure with the EIS and the flowsheet improvement programs. In the three months to the end of June, the Company achieved its lowest quarter in overhead expenditure of A$664,000 – a material reduction on the twelve-month rolling average of A$807,000.

Efficiencies were identified through an organisational restructure and continuation of the 2013 policy to freeze salaries. Arafura remains in a robust financial position with an A$11.5 million cash balance at the end of the reporting period.

OUTLOOK

The coming year will be a productive period with Arafura commencing tendering activities for Nolans engineering design and flowsheet testing that will form part of final feasibility for Nolans. This will be in parallel to escalating discussions with potential cornerstone investors, customers and financiers, and finalising the environmental approvals process, alongside Native Title and groundwater extraction approvals.

I thank the Arafura team for their dedication throughout the year and their commitment to the work program planned for the year ahead.

Finally, on behalf of the Company, I want to thank all shareholders for your patience and support for the business as it continues to make solid progress towards delivering Nolans into production.

Yours sincerely,

GAVIN LOCKYER
Managing Director

OPERATIONS REVIEW

SUCCESSFUL COMPLETION OF NOLANS PROJECT WORK PROGRAMS

A number of comprehensive work programs were completed during the year aimed at enhancing the commercialisation of the Nolans Project. The programs centred on process design improvements that have delivered a more competitive and efficient project with greater capacity to withstand cyclical downturns, improved the project's financial appeal and adjusted production that is better aligned to market expectations.

ENVIRONMENTAL

- Reduction in waste streams
- Reduced power and water consumption
- Smaller project footprint
- Overall reduced environmental impact

COMMERCIAL

- Product and revenue diversification with production of merchant-grade phosphoric acid
- Plant upgrade extended to year 10 of operations, deferring need for upfront capital injection
- Lower OPEX
- Increased rare earth recovery from ROM to final product
- Enhanced SEG and HRE recovery in rare earth extraction

EFFICIENCY

- Reduction in reagent use
- Reduction in the mining rate and ROM feed to the crushing plant
- Simplification of the comminution circuit to deliver a coarser feed into beneficiation
- Phosphoric acid in pre-leach better aligned with a rare earth-bearing phosphate-rich feed
- Enhanced suppression of adverse elements in the phosphoric acid process
- Smaller unit operations in sulfation and water leach

The Company plans to mine, concentrate and chemically process rare earths at the Nolans site, located in Australia's Northern Territory. Intermediate rare earth products produced at Nolans will be exported overseas either for direct sale or for final processing into high-value separated rare earth products, including a neodymium-praseodymium ('NdPr') oxide product that is a critical raw material input in the manufacture of ultra-strong permanent magnets.

PROCESS DESIGN IMPROVEMENTS

Mine, Beneficiation Plant, Extraction Plant

The improved process flowsheet targets phosphate-rich material types in the project's resource at Nolans Bore. By targeting this natural advantage, there are numerous positive processing efficiency and capital management flow-on effects.

Investigations into the Nolans mining schedule identified that the expected capital expansion that had been required in year 7 of the operation can be deferred to year 10, well beyond the project's initial financing period. This study delivers an optimal plant feed and throughput that results in an adjustment to the planned annual rare earths output to include 3,601 tonnes of NdPr oxide in 14,000 tonnes of total rare earth oxide ('TREO') equivalent over the 20+ year operational life of the project.

Test work focused on beneficiating rare earths-bearing phosphate-rich material types has simplified upstream processing at the beneficiation plant by adopting a smaller comminution (crushing and grinding) circuit and introducing an uncomplicated wet separation gravity circuit. These changes deliver a coarser concentrate feed, reduced power and water consumption, and improved operational environment.

The re-design and subsequent testing of a less costly and more efficient beneficiation circuit provides an optimised feed for the next processing step - rare earth extraction at the extraction plant. In particular, a key feature of the improved rare earth extraction flowsheet is the introduction of lower-cost phosphoric acid into the pre-leach circuit. The result of this is the annual output of 110,000 tonnes of a merchant-grade (54% P_2O_5) phosphoric acid product, which was previously reporting to waste.

The addition of a phosphoric acid product diversifies Nolans suite of products from a pure rare earths focus, and provides an additional revenue source through its potential sale to the high-growth fertiliser industry.

In addition, the reduction in reagent consumption is a key contributor to lower operating costs, which have been reduced to a highly competitive US$6.23 per kilogram of TREO (inclusive of phosphoric acid co-product credit). Lower reagent use has the added benefit of reducing the volume of waste residues, thus having a positive impact on the environmental footprint of the Nolans operation.

Separation Plant

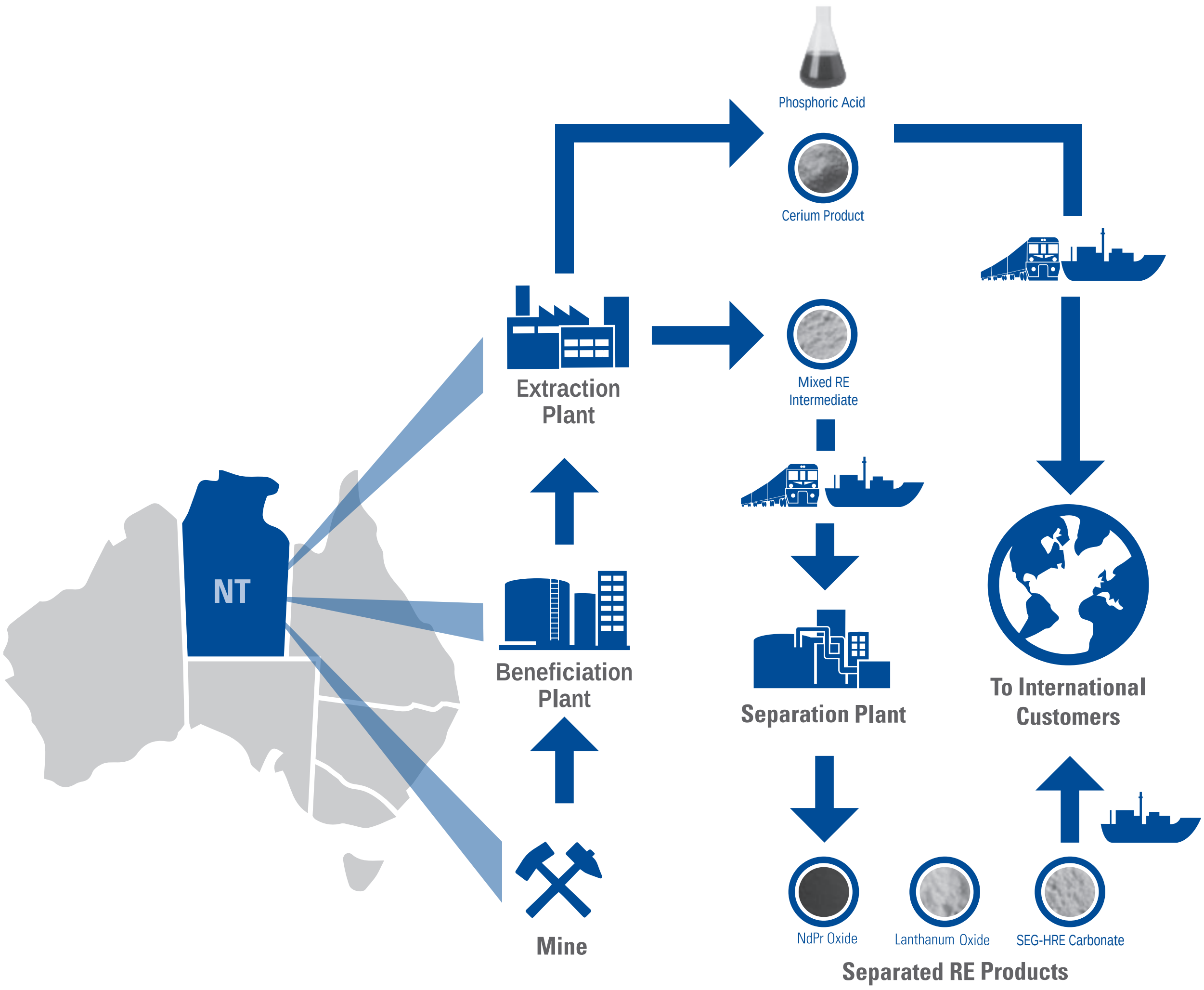
The revised flowsheet produces mixed rare earths intermediate, cerium carbonate and phosphoric acid products at the Nolans extraction plant in the Northern Territory. The offshore separation plant will receive the mixed intermediate product and now output three rare earth products compared with the previous four.

The removal of cerium at the extraction plant prior to dispatching intermediate product and the refinement of the final product suite reduces the number of unit operations in the separation plant and results in further capital and operating cost benefits.

	Nolans Development Report[1]	Current
Extraction Plant	Cerium carbonate	Cerium carbonate
	-	Phosphoric acid
Separation Plant	NdPr oxide	NdPr oxide
	Lanthanum oxide	Lanthanum oxide
	SEG oxide	SEG-HRE carbonate
	HRE oxide	

(1) Nolans Development Report (ASX: ARU 2/09/2014)

In October 2015 Arafura advised of a significant increase in Mineral Resources for the Nolans Bore deposit, particularly in the higher confidence Measured (up 10%) and Indicated (up 45%) resource categories.



ENGINEERING AND COST ESTIMATIONS

The Company has updated capital ('CAPEX') and operating ('OPEX') expenditure estimates to facilitate an assessment of the efficiency of the revised process configuration. These estimates were prepared to the same level of accuracy and basis as previous estimates inclusive of discipline factors and indirect costs.

Since the Company commenced initiatives in April 2013 to improve the viability and fundability of the Nolans Project, the CAPEX estimate has been reduced by US$658 million, or almost 50%, and the OPEX estimate by US$5.50 per kilogram of TREO, or 38%. The total initial CAPEX for the Nolans Project is now estimated to be US$680 million inclusive of 20% contingency.

NOLANS BORE MINERAL RESOURCES

MINING & PROCESSING		Previous	Current	Change
ROM feed (ktpa)		922	**525**	(43%)
Recovery (ROM to final product)	Total rare earths	63%	**76%**	21%
	NdPr	64%	**75%**	17%
	La	63%	**75%**	19%
	SEG-HRE	48%	**68%**	42%
ENVIRONMENTAL				
Reagents (ktpa)[1]		405	**151**	(63%)
Power demand (MW)[2]		14	**10.3**	(26%)
Water demand (GLpa)[3]		3.7	**2.7**	(27%)
Waste (Mtpa)[2]	Waste rock	6.1	**4.5**	(26%)
	Tailings and process residues	4.62	**2.26**	(51%)
PRODUCTION				
Product suite		- NdPr oxide	**- NdPr oxide**	Phosphoric acid co-product
		- La oxide	**- La oxide**	
		- SEG-HRE carbonate	**- SEG-HRE carbonate**	
		- Ce carbonate	**- Ce carbonate**	
			- Phosphoric acid	
TREO equivalent (tpa)		20,000	**14,000[4]**	(30%)
NdPr oxide (tpa)		5,260	**3,601**	(32%)
La oxide (tpa)		3,827	**2,658**	(31%)
SEG-HRE carbonate (tpa TREO equivalent)		746	**657**	(12%)
Phosphoric acid (ktpa merchant grade)		-	**110**	-
FINANCIAL[5]				
Capital cost (US$m)		$835	**$680**	(19%)
Operating cost (US$m pa)		$173	**$125**	(28%)
Operating cost (US$/kg TREO)		$8.65	**$8.89**	2.7%
Operating cost (US$/kg TREO; less credit for phosphoric acid[6])		$8.65	**$6.23**	(28%)

1 Nolans site (mine, beneficiation plant and extraction plant) and offshore separation plant
2 Nolans site only
3 Nolans beneficiation plant and extraction plant only
4 The separation plant capacity for 14,000 tpa of TREO equivalent output from Nolans is approximately 6,900 tpa of TREO. The difference of 7,100 tpa comprises a 95% cerium product which will be recovered at the extraction plant.
5 A$1 = US$0.70
6 Phosphoric acid revenue based on US$715/t of P_2O_5 on an FOB basis.

ENVIRONMENTAL IMPACT STATEMENT

In May 2016 the Company lodged the Environmental Impact Statement ('EIS') for the Nolans Project with the Northern Territory Environment Protection Authority ('NTEPA') and the Australian Government's Department of the Environment and Energy. The EIS is being assessed under a bilateral arrangement between the Northern Territory and Australian governments.

Lodgement of the EIS is a significant milestone in the regulatory approvals process and the broader development process for the Nolans Project. It is also the culmination of extensive, wide-ranging EIS studies that commenced in 2008.

The EIS comprised of a comprehensive risk assessment and studies covering surface and ground water, biodiversity, Aboriginal and cultural heritage, socioeconomic impacts, transport, radiation, air quality, noise, rehabilitation and cumulative impacts. The Company assessed the potential environmental and social impacts of the project and outlined a suite of management safeguards and mitigation measures.

The Nolans EIS was placed on public review via the NTEPA and Arafura websites for a period of eight weeks, ending 22 July 2016. The Company is presently examining public review comments received from the NTEPA, and the assessment and approvals process will continue over the coming months.

COMMUNITY AND STAKEHOLDER ENGAGEMENT

Arafura escalated its program of community and stakeholder engagement during the year.

The Company provided detailed project updates to Northern Territory Government co-ordination groups and local business groups in Alice Springs. A comprehensive consultation and communication strategy was developed and executed to ensure stakeholder issues and feedback was addressed in the EIS. The information collated during the consultation process was used in the preparation of the EIS's social impact assessment and social impact management plan.

Since the announcement of the Nolans Project the Company has engaged and consulted with key stakeholders in a number of different ways, including:

- 189 stakeholder meetings;
- 36 dedicated stakeholder social impact assessment interviews;
- Meetings with relevant local, Northern Territory and Australian government departments, agencies and regulators;
- Presentations to industry and business groups in Alice Springs and Darwin;
- Site visits with key stakeholders, including traditional owners of the Nolans site;
- Attending local events and community open days; and
- Community meetings.

MINERAL RESOURCE INCREASE

In October 2015 Arafura advised of a significant increase in Mineral Resources for the Nolans Bore deposit, particularly in the higher confidence Measured (up 10%) and Indicated (up 45%) resource categories.

The catalyst for this increase was the necessity to characterise the project's life-of-mine waste rocks, including their radioactivity – a key component of the Nolans EIS. This comprehensive review by Arafura's geologists led to the development of a new and improved geological model for mineralisation at Nolans Bore. No new drilling was necessary to support the new estimation.

Total Mineral Resources at Nolans Bore are now estimated to be 56 million tonnes at 2.6% TREO. The higher confidence Measured and Indicated Resources now account for two-thirds, or 974,000 tonnes, of the project's total contained TREO. Only 40 per cent of the project's Measured and Indicated Resources inventory is planned to be mined in the revised 14,000 tpa development schedule.

OCI MEMORANDUM OF UNDERSTANDING

In January 2016, the Company executed a Memorandum of Understanding ('MOU') with South Korean chemical manufacturer OCI Company Limited ('OCI'), to facilitate collaboration for the establishment of a jointly owned and toll operated separation plant in South Korea.

Korea Exchange-listed OCI has operations in the USA, China and Europe. OCI has a number of established chemical facilities including the Gunsan manufacturing plant, which is located some 200 kilometres south of Seoul near the Saemangeum Free Economic Zone ('SFEZ'). There are significant operational and financial benefits in co-locating the proposed separation plant near Gunsan and in the SFEZ, which includes state support, local government cash grants and central government subsidies. These incentives along with OCI's potential participation as a joint venture ('JV') partner for the toll processing separation plant will significantly aid the financing, construction and operation of the proposed facility.

Since the execution of the MOU, Company and OCI representatives have been working to finalise a site feasibility report for the South Korean site option. Subject to the successful completion of site feasibility the parties will work to formalise the commercial arrangements for the JV processing facility.

Arafura has previously stated its intention to develop a separation plant within an established offshore chemical precinct and has identified and shortlisted a number of sites with suitable road, rail, port and related infrastructure. Significant drivers for this strategy include access to raw materials, in particular hydrochloric acid, which obviates the need to construct a dedicated chlor-alkali facility, and leveraging existing infrastructure in an established chemical and manufacturing precinct, thereby reducing the project's overall capital requirement.

RARE EARTHS MARKET OVERVIEW

China's dominance of the rare earths market continued to be felt throughout the year particularly in the latter half when prices commenced an upward trend due to an anticipated strategic rare earths stockpiling by the Chinese National Development and Reform Commission.

This followed action in late 2015 when six of China's largest rare earth producers all announced production volume reductions ranging from 5 per cent to 12 per cent of their 2015 production quotas. In addition, the Chinese government also announced an economic plan to curb production capacity from loss making state owned enterprises in the minerals and metal sectors.

Combined with cash cost pressures for remaining producers, new rare earths supply was forecast to decline.

However, the much anticipated rare earths stockpiling strategy did not meet market expectations, with reports that issues were raised over price in relation to rare earth production costs. As a result, the upward trend of rare earth prices lost its impetus, with rare earth prices stabilising for the reporting period.

CLIMATE CHANGE AND CLEAN ENERGY

There was renewed attention on the reduction of carbon emissions during the year that culminated in the 2015 United Nations Climate Change Conference in Paris. An historic agreement was reached between nearly 200 parties attending, including Australia, to actively reduce carbon emissions from 2020 to limit global warming to less than 2 degrees Celsius.

In Australia, the Government's policy on renewable energy shifted with the removal of a ban on wind farm investment, and its focus on this sector has sharpened following its re-election in August.

Towards the end of the reporting period, there was also significant discussion and investment attention focused on the shift in energy use away from fossil fuels and traditional infrastructure. The catalyst for these changes has been facilitated by the improving cost and efficiency of lithium-ion batteries.

The attention on lithium-ion batteries has increased the focus on the emerging opportunity for electric vehicles. Governments including China, the USA and the EU are setting carbon emission targets for the motor vehicle industry. In particular, China recently adopted the key strategic goal for half of all new public transport vehicles purchased by the central government and specified local governments to be new energy vehicles. In addition, the Chinese Government's State Council will commit to battery technology, with special government investment for power distribution networks, battery charging facilities installed in residential districts, and at businesses and airports.

The demand for electric and energy efficient vehicles will grow significantly over the next 10 years due to the combined impacts of:

- improved cost and efficiency for lithium-ion batteries;
- governments setting carbon emissions targets for the automotive industry;
- governments providing incentives for electric vehicle technology development; and
- consumer desire to reduce reliance on fossil fuels.

DEMAND FOR NDPR

The projected significant growth for electric vehicle sales will be an important demand driver for rare earth magnets for which NdPr is a key raw material. Electric vehicles, including hybrids, use rare earth magnets in its traction motors to achieve higher energy efficiency and improved power quality. In addition, rare earth magnets offer high torque density, meaning the traction motor can be compact, lightweight and more efficient. Consequently, the performance benefits of rare earth magnets in traction motors are significant and not able to be replicated with other materials.

In addition to traction motors, general motor vehicles are becoming more sophisticated with increased reliance on electrical systems. Rare earth magnets are also vital to reducing the size and efficiency of these systems that are integral to the operation of the vehicle.

NdPr is also a vital component in the manufacture of wind turbines, with between 400 kilograms and 600 kilograms of rare earth permanent magnets used in the construction of a direct drive wind turbine. Consumer electronics also remain a key demand driver. An average smart phone contains 2 grams of rare earth magnets, with the number of smart phones exceeding the current global population of approximately 7.4 billion.

Growth in sales of electric vehicles, increased investment in wind turbines and ongoing frequent use of consumer electronics will be some of the key drivers of demand for rare earth magnets and NdPr. Analysts have reaffirmed forecast demand for rare earth magnets and NdPr will grow by an average of 10 per cent each year.

Long-term secure supply from NdPr-rich projects like Nolans will be critical to meeting these demand growth projections. Arafura estimates that by 2020, a minimum of four additional Nolans-sized projects will be required to fill the predicted supply shortfall in NdPr.

EXPLORATION

AILERON – REYNOLDS (RARE EARTHS)

The Company lodged five exploration licence ('EL') applications with the Northern Territory Department of Mines and Energy ('DME') during the year. They form part of the Company's ongoing strategic review of its exploration activities, targeting areas within the Aileron-Reynolds Project it considers prospective for heavy rare earths to augment NdPr-rich feed from Nolans. The DME review process for the potential granting of these ELs is expected to be complete by the end of CY 2016.

JERVOIS (BASE AND PRECIOUS METALS; IRON-VANADIUM)

Rox Resources Ltd (ASX: RXL, or 'Rox') holds a 51 per cent interest in the base and precious metal rights on EL 29701, and has elected to earn 70 per cent by spending an additional A$1 million on the tenement by December 2016. Upcoming activities by Rox on EL 29701 include surface mapping and ground geophysics in advance of further drilling at the Bonya Mine prospect.

MT PORTER – FRANCES CREEK (GOLD)

In June 2016 the Company successfully negotiated the terms of its divestment of the Mt Porter-Frances Creek Project to Ark Mines Ltd (ASX: AHK, or 'Ark'). The Company has since received $300,000 in cash and holds a 2.5% royalty on gross sales of gold from ore mined on the project. Ark expects to commence mining at Mt Porter in the near future, subject to securing all necessary Territory and Federal government regulatory approvals.

NAMEPLATE PRODUCTION

The CAPEX and OPEX estimates in this document are based on a nameplate production target of 14,000 tonnes per annum of TREO equivalent from Measured and Indicated Mineral Resources at Nolans Bore. The Mineral Resources were estimated and reported by the Company (ASX: ARU 9/12/14) following the guidelines of the JORC Code 2012. Classification of total resources at Nolans Bore into Measured, Indicated and Inferred resources, using a 1.0% TREO cut-off grade ("COG"), is shown in the table below. Contained (in-situ) resources of rare earths are also shown.

COMPETENT PERSONS STATEMENT

The information in this report that relates to 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. 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 REO %	Tonnes REO	Phosphate P_2O_5%	Uranium U_3O_8 lb/t
Measured	4.9	3.2	158,000	13	0.54
Indicated	30	2.7	816,000	12	0.44
Inferred	21	2.3	489,000	10	0.36
TOTAL	**56**	**2.6**	**1,462,000**	**12**	**0.42**

As at 30 October, 2015. 1% TREO cut-off grade applied. 1 lb/t U3O8 = 0.0454% U_3O_8.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2016

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2016

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 2016.

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
G. Lockyer

PRINCIPAL ACTIVITIES

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

(a) Nolans Project Environmental Impact Statement

(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 $31,924,936 for the 2016 financial year (2015: $4,208,137). The increase in loss recorded in the current period has primarily been driven by the recognition of a significant impairment charge across previously capitalised evaluation expenditure totalling $27,726,265 which had not been recognised in the prior year. Due to significant improvements made in optimising Arafura's flowsheet, previously capitalised assets pertaining to demonstration-scale HCl pre-leach and Sulphation programs were reviewed by management and it was determined that a heightened risk existed as to the future economic benefits of those assets and as a result, Arafura decided to impair those. Please see the ASX announcement dated 11 March 2016 for a more detailed response.

In order to provide an increased focus on the Nolans Project, Arafura has taken an active approach in divesting its non-core assets. In June 2016, the Company was able to negotiate a $300,000 sale agreement relating to the Mt Porter and Frances Creek tenements which has been a successful outcome considering tough market conditions. The sale resulted in a loss of $481,679 in the current year and further explains the increase in loss over the comparative periods.

Due to a reduction in the cash balance over the financial year, coupled with several reductions in interest rates, Arafura was also not able to realise the same revenue that it did through interest income. The difference over the 12 month period resulted in a less favourable outcome of $238,978.

Offsetting the above, Arafura was able to continue its aggressive approach to reducing overhead and other administrative type expenditures. Significant improvements have been made across the business on both a non-cash and cash basis, for example there has been a significant reduction in 'Employee Benefits' and 'Other expenses' totalling $1,398,370 and also a reduction in 'Payments to Suppliers and Employees' over the comparative period of $1,225,833.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs during the financial year were as follows:

(a) On 23 of May 2016 Arafura submitted the Environmental Impact Statement for the Nolans Rare Earths Project to the Northern Territory Protection Authority. The EIS was prepared by GHD and includes a comprehensive risk assessment and studies covering ground and surface water, biodiversity, Aboriginal and cultural heritage, socioeconomic impacts, transport, radiation, air quality, noise, rehabilitation and cumulative impacts.

(b) The Company received a cash injection of $2,992,450 on 23 December 2015 and an additional $474,271 on 14 January 2016 which relate to an Australian Government rebate of 45 cents in every dollar spent on eligible R&D activities. The incentive is a jointly administered program between AusIndustry and the Australian Taxation Office. The rebate has a compounding effect on the company with rebate amounts being able to be spent of future R&D which in turn can generate future rebate potential.

(c) On 28 June 2016, Arafura announced major improvements after a review of the Nolans project. The review identified substantial operation and cost efficiencies with the introduction of phosphoric acid in the pre-leach circuit which simplifies the Nolans flowsheet and allows production of 110,000 tonnes per anum of a merchant grade (54% P2O5) phosphoric acid product that was previously reporting to waste. As a result of the change, capex and opex have both decreased.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No matters or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect:

(a) the Group's operations in future financial years, or

(b) the results of those operations in future financial years, or

(c) the Group's state of affairs in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Group's principal focus is the development of the Nolans 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.

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.

INFORMATION ON DIRECTORS

IAN JOHN KOWALICK

BSc (Hons), B.Ec, AM. Chairman and Non-Executive Director.

Experience and expertise

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

First Appointed

19 December 2002.

Other current Directorships

SA Forestry Corporation.
NT Power and Water Corporation.
Medvet Science Pty Ltd.

Former Directorships in the last 3 years

Syngas Limited.
Central Australian Phosphate Limited.

Special responsibilities

Chairman of the Board.
Chairman of the Remuneration and Nomination Committee.
Member of the Audit and Risk Committee.

Interests in shares and options

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

GAVIN LOCKYER

B.Bus, CA. Managing Director

Experience and expertise

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

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

Mr Lockyer's diverse, global experience has provided management and leadership opportunities in a range of disciplines including; Accounting, Financial & Investment Banking, Major Resource Development & Operations and Global Bank Treasuries. Over the past 24 years his career has exposed him to business practices in Australia, Europe, the UK, the US, Japan, China and Pakistan.

First Appointed

23 July 2013.

Other current Directorships

None.

Former Directorships in the last 3 years

None.

Special responsibilities

None.

Interests in shares and options

5,500,000 unlisted options in Arafura Resources Limited (Indirect).
334,014 ordinary shares in Arafura Resources Limited (Indirect).

CHRISTOPHER STEPHEN TONKIN

BSc (Hons), BA (Econ & Pol), MBA. Non-Executive Director

Experience and expertise

Chris Tonkin is a highly experienced senior business executive with an extensive background in providing financial, management and strategic products, services and advice to industry. He has over 30 years experience and a broad industry background in business generation, management and strategy development. He has a substantial track record in structuring and arranging complex financings for companies and projects, in Australia and internationally, across all major industry sectors and particularly the natural resources, power and telecommunications sectors.

Mr Tonkin began his career as a metallurgist and environmental specialist, diversifying into commercial roles at several major industrial companies and subsequently banking and financial services, including project finance, corporate and project advisory roles at AIDC, The Chase Manhattan Bank, KPMG Corporate Finance and the Australia and New Zealand Banking Group, where he was Executive Director and Head of Natural Resources, Project and Structured Finance. He is a past Managing Director of Arafura Resources Limited and is currently Chairman of Lakes Oil N.L. and an Executive Director of advisory companies Capital Advisory Services and Catalyst Capital Solutions Pty Ltd.

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

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

B.Ec, MBA. Non-Executive Director

Experience and expertise

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

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

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

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

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

First Appointed

21 February 2013.

Other current directorships

None.

Former directorships in the last 3 years

None.

Special responsibilities

Chairman of the Audit and Risk Committee.
Member of the Remuneration and Nomination Committee.

Interests in shares and options

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

MR CUNGEN DING

B.Geological Survey. Non-Executive Director

Experience and expertise

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

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

First Appointed

3 March 2015.

Other current directorships

Chairman of China Africa Resources PLC.

Former directorships in the last 3 years

None.

Special responsibilities

None.

Interests in shares and options

None.

COMPANY SECRETARY

PETER SHERRINGTON

B.Bus, CA

Peter holds a bachelor of business in accounting and finance and is a member of the Institute of Chartered Accountants.

He commenced employment with Arafura in 2008 as Commercial Manager and was appointed Chief Financial Officer in July 2013. He has in excess of 20 years' experience in professional and corporate roles in Perth. Prior to working with Arafura he held senior finance and commercial positions with a number of ASX and public unlisted entities. He has also worked in public practice for 10 years in the areas of business services and corporate advisory.

MEETING OF DIRECTORS

The number of meetings of the Company's Board of Directors, the number of meetings each Board Committee held and the number of meetings attended by each Director throughout the year ended 30 June 2016 were:

	BOARD MEETINGS		MEETINGS OF COMMITTEES			
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
Terry Grose	13	13	4	4	3	3
Ian Kowalick	13	13	4	4	3	3
Chris Tonkin	13	13	4	3	3	3
Cungen Ding	13	12	-	-	-	-
Gavin Lockyer	13	13	-	-	-	-

As at 30 June 2016 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
Cungen Ding
Gavin Lockyer (Managing Director)

Other Key Management Personnel

Name	Position
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
Neil Graham(1)	General Manager of Operations and Technology

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

REMUNERATION GOVERNANCE

The Remuneration and Nomination Committee is a Committee of the Board. It is primarily responsible for making recommendations to the Board on:

- the over-arching executive remuneration framework
- operation of the incentive plans which apply to the executive team, including key performance indicators and possible performance hurdles
- remuneration levels of Executive Directors and other key management personnel, and
- Non-Executive Directors fees.

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 2016 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 are reviewed annually by the Board. The Board considered market conditions and its remuneration from the prior year and determined that there be no changes to the remuneration of Non-Executive Directors. The Chairman's fee is determined independently to the fees of Non-Executive Directors based on comparative roles in the external market. The Chairman is not present at any discussion relating to the determination of his own remuneration.

Non-Executive Directors' fees are determined within an aggregate Directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at $1,000,000 per annum but defined more specifically below:

	Year ended 30 June 2016	From 1 July 2016
Base Fees		
Chairman	$135,000	$135,000
Other Non-Executive Directors	$70,000	$70,000
Additional Fees		
Audit and Risk Committee – Chairman	*	*
Audit and Risk Committee – member	*	*
Remuneration and Nomination Committee - Chairman	*	*
Remuneration and Nomination Committee - member	*	*

*Directors are expected to serve on Board sub-committees on a reasonable and appropriate basis. No additional fees are paid.

The current base remuneration was last reviewed with effect from 1 July 2016.

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

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

Executive pay

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

- base pay and benefits;
- 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, as well as a Health and Well Being allowance amounting to $1,100 (as of 1 July 2016 the Health and Well Being allowance will be included in the TFR).

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 2016 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 2016, there were no KPI's set for Executives or the Managing Director and no bonuses were received.

Long-term performance incentives

Long-term performance-linked remuneration is designed for rewarding Executive Directors, officers and senior management for their role in achieving corporate objectives and is directly linked to the creation of shareholder value.

Senior management receive long-term incentives which are provided as options issued either under the terms and conditions of the Group's Employee Share Option Plan or otherwise under the terms and conditions determined at the time of issue by the Board.

Under the Company's Option Plan approved by shareholders at the general meeting held on 22 November 2013, the Board has absolute discretion to:

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

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

At the 2016 AGM a new option plan will be put to vote as is required under ASX listing rule 7.2.

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

Use of remuneration consultants

No remuneration consultants were used in the year ended 30 June 2016.

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 2016, there were no KPI's set for Executives or the Managing Director and no bonuses were received. Options were also not issued during the year ended 30 June 2016, current option interests are shown on page 27.

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 2016 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
- N Graham – General Manager of Operations and Technology (left the organisation 1 September 2015)

Voting and comments made at the company's 2015 Annual General Meeting

Arafura Resources Ltd received more than 95% of "for" votes on its remuneration report for the 2015 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		
2016 Name	Cash salary and fees $	Bonus $	Non-monetary benefits $	Super-annuation $	Long service leave $	Termination benefits $	Options $	Total $	Percent - consisting of options $
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	5%
Other key management personnel (Group)									
P Sherrington	311,100	-	2,338	30,000	5,682	-	4,785	353,905	1%
R Brescianini	266,100	-	2,338	35,000	5,014	-	4,785	313,237	2%
N Graham (1)	109,299	-	389	23,571	-	169,750	(5,585)	297,424	(2%)
B Fowler	247,100	-	-	35,000	4,696	-	4,785	291,581	2%
Total	**1,681,509**	**-**	**8,993**	**186,571**	**22,495**	**169,750**	**29,578**	**2,098,896**	**1%**

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

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

(1) Ms. Lu resigned as a non-executive Director on 17 November 2014
(2) Mr. Tonkin incurred $38,300 in consultancy work throughout the financial year.
(3) Mr Graham stepped down as GM Operations and Technology as of 1 September 2015.

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 2016 financial year:

G Lockyer, Managing Director

- No term of agreement.
- Base salary inclusive of superannuation, for the year ended 30 June 2016 of $425,000.
- An annual $1,100 allowance for general health and wellbeing.
- 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 2016 of $340,000.
- An annual $1,100 allowance for general health and wellbeing.
- 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 2016 of $300,000.
- An annual $1,100 allowance for general health and wellbeing.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to three months of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to six months of the base salary.

N Graham, General Manager of Operations and Technology

- No term of agreement.
- Base salary inclusive of superannuation for the year ended 30 June 2016 of $330,000.
- An annual $1,100 allowance for general health and wellbeing.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to three months of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to six months of the base salary.
- Mr Graham resigned as General Manager of Operations and Technology 1 September 2015.

B Fowler, General Manager of Northern Territory and Sustainability.

- No term of agreement.
- Base salary inclusive of superannuation for the year ended 30 June 2016 of $281,000.
- An annual $1,100 allowance for general health and wellbeing.
- 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.

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 2013 annual general meeting and will be up for consideration at the upcoming 2016 annual general meeting.

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

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

Grant date	Date vested and exercisable	Expiry date	Exercise price	Model option value	% Vested
18-Jul-13	18-Jul-14	18-Jul-16	$0.140	$0.041	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	0%
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	0%
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	Year lapsed options were granted $
Directors of Arafura Resources Limited					
I Kowalick	-	-	-	-	-
T Grose	-	-	-	-	-
C Tonkin	-	-	-	-	-
C Ding	-	-	-	-	-
G Lockyer	-	-	1,000,000	430,000	2013
Other key management personnel of the group					
P Sherrington	-	-	200,000	300,000	2013
R Brescianini	-	-	200,000	430,000	2013
N Graham	-	-	200,000	1,830,000	2013, 2014
B Fowler	-	-	200,000	-	-

The assessed fair value at grant date of the options given to individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables in this report. Fair values at grant date are determined using the Binomial option pricing model that take into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and the expected price volatility of the underlying share and the risk free interest rate of the term of the option.

Shares provided on exercise of remuneration options

No options were converted to shares by any Key Management Personnel during the 30 June 2016 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 2016.

Other transactions with key management personnel

In the 2015 and 2016 financial year, there were no transactions with individuals at any time.

MOVEMENTS IN OPTION INTERESTS OF KEY MANAGEMENT PERSONNEL FOR 30 JUNE 2016

2016	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 Kowalick	-	-	-	-	-	-	-
T Grose	-	-	-	-	-	-	-
C Tonkin	-	-	-	-	-	-	-
C Ding	-	-	-	-	-	-	-
G Lockyer	5,930,000	-	-	(430,000)	5,500,000	3,500,000	2,000,000
Key management personnel of the Group							
P Sherrington	1,700,000	-	-	(300,000)	1,400,000	1,000,000	400,000
R Brescianini	1,830,000	-	-	(430,000)	1,400,000	1,000,000	400,000
N Graham	1,830,000	-	-	(1,830,000)	-	-	-
B Fowler	1,400,000	-	-	-	1,400,000	1,000,000	400,000
Total	**12,690,000**	**-**	**-**	**(2,990,000)**	**9,700,000**	**6,500,000**	**3,200,000**

MOVEMENTS IN SHARE INTERESTS OF KEY MANAGEMENT PERSONNEL FOR 30 JUNE 2016

2016	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 Kowalick	577,007	-	-	577,007
T Grose	20,000	-	-	20,000
C Tonkin	100,000	-	-	100,000
C Ding	-	-	-	-
G Lockyer	334,014	-	-	334,014
		-	-	
Key management personnel of the Group				
P Sherrington	-	-	-	-
R Brescianini	85,054	-	-	85,054
N Graham	13,513	-	(13,513)(1)	-
B Fowler	-	-	-	-
Total	**1,129,588**	**-**	**(13,513)**	**1,129,588**

(1) Amount held upon Mr Graham's resignation at 1 September 2015

This is the end of the audited remuneration report.

Insurance of officers

During the financial year, the Group has paid an insurance premium in respect of a Directors' and Officers' Liability Insurance Contract. The insurance premium relates to liabilities that may arise from an officer's position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain personal advantage.

The officers covered by the insurance policies are Directors and officers of the Group.

The contract of insurance prohibits the disclosure of the nature of the liabilities and the amount of premium.

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 2016 financial year. As a result the Board is satisfied that the auditor is compatible with, and did not compromise, the auditor's independence requirements of the Corporations Act 2001 for the following reasons:

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

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

AUDITOR'S INDEPENDENCE DECLARATION

FOR THE YEAR ENDED 30 JUNE 2016

Auditor's independence declaration

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

Signed in accordance with a resolution of the Directors.

GAVIN LOCKYER
Managing Director

IAN KOWALICK
Chairman

Perth, Western Australia
21 September 2016

BDO

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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 2016, 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, 21 September 2016

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2016

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 2015/2016 financial year **(Reporting Period)**.

The information in this statement is current at 19 September 2016. This statement was approved by a resolution of the Board on 21 September 2016.

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Recommendation 1.1

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

Recommendation 1.2

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

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

Recommendation 1.3

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

Recommendation 1.4

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

Recommendation 1.5

The Company has a Diversity Policy, which outlines the Company's commitment to ensuring a diverse mix of skills and talent exists amongst its directors, officers and employees, to enhance Company performance. The Diversity Policy addresses equal opportunities in the hiring, training and career advancement of directors, officers and employees and also outlines the process by which the Board may set measurable objectives to achieve the aims of its Diversity Policy, with particular focus on gender diversity within the Company. 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	4 out of 17 (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 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. A summary of results was tabled by the Company Secretary to the Chair and the results 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 shortly after the Reporting Period. The evaluation consisted of performance and leadership competencies. It also considered such things as market sentiment and industry activity. KPI's are being considered for the 2016/17 Reporting Period and will be finalised in due course.

Recommendation 1.7

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

During the Reporting Period an evaluation process of the senior executives 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.

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 18 of the Company's 2016 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 and diversity is required to oversee the Company's strategic direction, opportunities and challenges at all stages of its development. When considering the appointment of new directors, the Board seeks to recruit individuals with complementary skills, professional qualifications and experience. In support of this, the Board applies a Skills Assessment to guide its succession planning and director recruitment agenda. When determining the appropriate mix of skills and diversity amongst directors, the Board considers Arafura's strategic objectives and long term shareholder wealth drivers.

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 combining innovation, enterprise and technology to deliver the Nolans Project and Neodymium products to key markets throughout the world;
- To be a leader in the Rare Earth supply chain by safely developing the Nolans Project as a low cost, efficient and reliable Neodymium products to serve the global demand; and
- To remain at the forefront of RE extraction processing technology to ensure that the company's Nolan's plant is world competitive in operating efficiencies and capital and operating costs.

These strategy statements imply a particular requirement for a strategic Board with sound business and commercial skills and the ability to tap into appropriate expertise in areas such as Rare Earth Markets, Minerals Processing, process technology, and project management.

Board Renewal

The Board has regularly reviewed its need for renewal and succession planning in light of the Company's direction, strategy and future challenges. As Arafura transitions from the exploration and development phase where skills in project development are paramount during a growth period, appropriate changes to the composition of the Board will be undertaken.

- In 2009 Arafura attracted investment from ECE which recognized the potential of the Company's Nolans Project. The Company has enjoyed ECE's support ever since. ECE's current Board member, Mr Cungen Ding, steps down from the Board at the 2016 AGM. The remaining Board members would like to take this opportunity to thank Mr Ding for his contribution to the Company during the time of his Board service and they look forward to a similar cooperative relationship with his successor.
- With Arafura's main focus now on Feasibility studies and the Nolans asset development, the Board will keep Board composition under review and make changes as necessary.

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).

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.	5
Technology & Innovation	Professional qualifications/experience in the research development and implementation of minerals processing technologies, Chemical Engineering, Geology, Mining & Rare Earths industry.	4
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

At the time of this Report, given the Company's development progress, the Board is considering the recruitment of an additional director with skills and experience in the Project engineering & construction fields.

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 25 May 2016 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 Cungen Ding, as he is a nominee director appointed by the Company's largest shareholder ECE Nolans Inv Co PL.

Mr Grose is independent as he is a non-executive director who is not a member of management and is free of any business or other relationship that could materially interfere with, or could 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.

Since 25 May 2016, notwithstanding his previous executive role with the Company within the last 3 years, Mr Tonkin has been deemed to be an independent director for the reasons set out below:

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

The length of service of each director is set out in the Directors' Report on pages 16-18 of the Company's 2016 Annual Report.

Recommendation 2.4

The Board has a majority of directors who are independent.

Recommendation 2.5

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

Recommendation 2.6

The Company has an induction program that it uses to when new directors join the Board and when new senior executives are appointed. The goal 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 2016 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 18 of the Company's 2016 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 2015 and the full-year ended 30 June 2016 and each of the quarters ending 30 September 2015, 31 December 2015, 31 March 2016 and 30 June 2016, 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.

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 19 November 2015.

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 a bi-annual procedure 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, enviro`ental 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 2016 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 2016

	Notes	2016 $	2015 $
Revenue from continuing operations	5	376,325	615,303
Non-capitalised portion of R&D tax incentive rebate	5	950,727	1,167,812
Other income	5	12,861	16,193
Employee benefits expense	6	(2,715,088)	(2,889,930)
Share-based payments	6	(34,001)	(79,433)
Other expenses	6	(1,733,399)	(2,911,495)
Depreciation and amortisation	6	(55,590)	(118,797)
Finance costs	6	(5,562)	(7,790)
Impairment of assets	6	(28,239,530)	-
Loss on sale of tenements	6	(481,679)	-
Loss before income tax		**(31,924,936)**	**(4,208,137)**
Net (Loss) after income tax for the year		**(31,924,936)**	**(4,208,137)**
Total comprehensive (loss) for the year attributable to owners of Arafura Resources Limited		**(31,924,936)**	**(4,208,137)**
Loss per share attributable to owners of Arafura Resources Limited			
Basic loss per share	22	(7.2)	(0.9)
Diluted loss per share	22	(7.2)	(0.9)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT YEAR ENDED 30 JUNE 2016

	Notes	2016 $	2015 $
CURRENT ASSETS			
Cash and cash equivalents	8	11,543,001	16,615,482
Trade and other receivables	9	481,353	207,523
Total Current Assets		**12,024,354**	**16,823,005**
NON-CURRENT ASSETS			
Property, plant and equipment	11	130,248	185,317
Deferred exploration, evaluation and development costs	12	87,308,434	114,923,897
Other assets	10	254,044	256,307
Total Non-Current Assets		**87,692,726**	**115,365,521**
TOTAL ASSETS		**99,717,080**	**132,188,526**
CURRENT LIABILITIES			
Trade and other payables	13	486,048	1,080,887
Provisions	14	460,678	408,620
Total Current Liabilities		**946,726**	**1,489,507**
NON-CURRENT LIABILITIES			
Provisions	14	276,127	313,857
Total Non-Current Liabilities		**276,127**	**313,857**
TOTAL LIABILITIES		**1,222,853**	**1,803,364**
NET ASSETS		**98,494,227**	**130,385,162**
EQUITY			
Contributed equity	15	194,128,196	194,128,196
Reserves	16	11,629,350	11,595,349
Accumulated losses	17	(107,263,319)	(75,338,383)
TOTAL EQUITY		**98,494,227**	**130,385,162**

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 2016

Consolidated	Notes	Contributed equity $	Equity reserve $	Accumulated losses $	Total equity $
Balance at 30 June 2014		**194,128,196**	**11,515,916**	**(71,130,246)**	**134,513,866**
Loss for the 2015 financial year	17	-	-	(4,208,137)	(4,208,137)
Other comprehensive income		-	-	-	-
Total Comprehensive income for the year		**-**	**-**	**(4,208,137)**	**(4,208,137)**
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs and tax		-	-	-	-
Employee share options – value of employee services	16	-	79,433	-	79,433
Balance at 30 June 2015		**194,128,196**	**11,595,349**	**(75,338,383)**	**130,385,162**
Loss for the 2016 financial year	17	-	-	(31,924,936)	(31,924,936)
Other comprehensive income		-	-	-	-
Total Comprehensive income 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		-	-	-	-
Employee share options – value of employee services	16	-	34,001	-	34,001
Balance at 30 June 2016		**194,128,196**	**11,629,350**	**(107,263,319)**	**98,494,227**

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 2016

	Notes	30 June 2016 $	30 June 2015 $
Cash flows from operating activities			
Payments to suppliers and employees		(4,798,107)	(6,023,940)
Interest received		376,068	681,654
R&D incentive rebate – non-capitalised portion		950,727	1,167,812
Interest paid		(5,562)	(7,790)
Other		-	269,747
Net cash (outflow) from operating activities		**(3,476,874)**	(3,912,517)
Cash flows from investing activities			
Payments for property, plant and equipment		(523)	(110,010)
Payments for exploration and evaluation		(4,072,639)	(6,189,149)
R&D incentive rebate – capitalised portion		2,515,992	2,263,935
Other		(51,299)	-
Net cash (outflow) from investing activities		**(1,608,469)**	(4,035,224)
Net (decrease) in cash and cash equivalents		**(5,085,343)**	(7,947,741)
Cash at the beginning of the financial year		16,615,482	24,547,030
Effects of exchange rate changes on cash and cash equivalents		12,862	16,193
Cash and cash equivalents at the end of the financial year		**11,543,001**	16,615,482

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

INDEX TO THE NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

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 2015.

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 2016 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. Arafura had a joint arrangement with Ferrowest Ltd until 22 September 2015.

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 23.

Joint Ventures

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

(iii) Equity Method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates or joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group treats transactions with non-controlling interests that do no results in a loss of control as transaction with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received will be recognised in a separate reserve within equity attributable to owners of Arafura Resources Ltd.

(d) Income tax

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

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

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

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

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) Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Gains and losses arising from changes in the fair value of these assets are included in the statement of profit or loss and other comprehensive income in the period in which they arise.

(ii) Loans and receivables

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

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

(iii) Held-to-maturity investments

These are non-derivative financial assets with fixed or determinable payments and fixed maturities that Group's management has a positive intention and ability to hold to maturity.

(iv) Available-for-sale financial assets

Available-for-sale financial assets comprising marketable equitable securities are non-derivatives that are either designated in this category or not classified in any other of the categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the statement of financial position date.

Purchases and sales of available-for–sale financial assets are recognised on trade date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through the profit or loss.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(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 27.

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

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 27.

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

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

(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 2016 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.

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

Application date:
Must be applied for annual reporting periods beginning on or after 1 January 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:
Due to the recent release of this standard the company has not yet made an assessment of the impact of this standard.

(iii) IFRS 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:

	2016 $	2015 $
Financial assets		
Cash and cash equivalents	11,543,001	16,615,482
Trade and other receivables	481,353	463,830
	12,024,354	**17,079,312**
Financial liabilities		
Trade creditors	239,153	522,535
Trade and other accruals	206,368	540,724
PAYG and payroll tax liabilities	40,527	17,628
	486,048	**1,080,887**

(a) Market risk

(i) Foreign exchange risk

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

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

At the reporting date, the Group has an immaterial foreign exchange risk, being the value of a USD bank balance which is subject to movements in the AUD/USD foreign exchange markets. The USD account has been established to meet overseas payments denominated in USD. This provides the Group with the opportunity to naturally hedge transactions where best seen fit and will only expose the Group to unrealised foreign exchange risk. As a result, at the reporting date, the Group has no currency hedging in place in relation to foreign exchange risk exposure.

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

	2016 USD	2015 USD
Cash at bank	**20,293**	**191,771**

(ii) Group sensitivity

Based on the financial instruments held at 30 June 2016, had the Australian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, there would be an immaterial effect on the Group's post tax loss. The unrealised gain/loss would result in a reduction of the reported Group post tax loss of $2,733 or an increased loss in reported Group post tax losses of $2,484.

The Group's exposure to other foreign exchange movements is not material.

(iii) Price risk

The Group was not exposed to equity securities price risk. This typically arises from investments held by the Group and classified on the statement of financial position as available-for-sale financial assets. At 30 June 2016, Arafura had no such investments.

(iv) Cash flow and fair value interest rate risk

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

(v) Group sensitivity

At 30 June 2016, if interest rates had increased by 70 or decreased by 100 basis points from year-end rates with all other variables held constant, post-tax loss for the year would have been $108,601 lower/($137,597 higher) (2015 – change of 70/100 bps: $135,552 lower/($163,183 higher). This would be the result from higher/lower interest income from cash and cash equivalents.

(b) Credit risk

The Group has no significant concentrations of credit risk.

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

	2016 $	2015 $
Cash at bank and short-term bank deposits		
Standard & Poor's rating AA-	**11,543,001**	16,615,482

(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 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**

Group – At 30 June 2015	Less than 6 months	6 – 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amounts of (assets) / liabilities
	$	$	$	$	$	$	$
Non-derivatives							
Non-interest bearing	1,080,887	-	-	-	-	1,080,887	1,080,887
Fixed rate	-	-	-	-	-	-	-
Total non-derivatives	**1,080,887**	**-**	**-**	**-**	**-**	**1,080,887**	**1,080,887**

(d) Fair value estimation

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

NOTE 3: CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

(a) Critical accounting estimates and assumptions

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

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

Details of the Group's policy regarding the capitalisation of mining, evaluation and development expenditure are found in note 1(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 2015/16 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 2016 financial year.

(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 2015 and 2016 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2016

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.

NOTE 4: SEGMENT INFORMATION (CONT)

The segment information provided to the Managing Director and CEO for the reportable segments for the year ended 30 June 2016 is as follows:

	Project evaluation	Exploration	Corporate	Total
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)
2015				
Segment revenue	2,263,935	-	1,783,115	4,047,050
Segment expenditure	(5,287,574)	(297,782)	(5,801,426)	(11,386,782)
	(3,023,639)	(297,782)	(4,018,311)	(7,339,732)
Adjusted EBITDA	**-**	-	**(4,018,311)**	**(4,018,311)**
Capitalised expenditure	(3,023,639)	(297,782)	-	(3,321,421)
	(3,023,639)	(297,782)	(4,018,311)	(7,339,732)
Total segment assets				
2016	74,054,655	13,253,779	12,408,646	99,717,080
2015	100,928,267	13,995,629	17,264,630	132,188,526
Total segment liabilities				
2016	325,830	186,791	710,231	1,222,853
2015	598,123	24,582	1,180,658	1,803,363

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2016

NOTE 4: SEGMENT INFORMATION (CONT)

	2016 $	2015 $
Adjusted EBITDA	**(3,121,435)**	**(4,018,311)**
Finance Costs	(5,562)	(7,790)
Depreciation & amortisation	(55,590)	(118,797)
Share option expense	(34,001)	(79,432)
Impairment on assets	(28,239,530)	-
Unrealised exchange rate (loss)/gain	12,861	16,193
Loss on tenement sale	(481,679)	-
Loss before income tax	**(31,924,936)**	**(4,208,137)**

NOTE 5: REVENUE

	2016 $	2015 $
Revenue from continuing operations		
Other revenue		
Interest received	**376,325**	615,303
	376,325	615,303
Other Income		
Foreign exchange gain/(loss)	**12,861**	16,193
Non-capitalised portion of R&D Tax Incentive rebate	**950,727**	1,167,812
	963,588	1,184,005
Total Revenue	**1,339,913**	1,799,308

NOTE 6: EXPENSES

	2016 $	2015 $
(a) Expenses		
Depreciation		
Depreciation – plant & equipment	**38,642**	45,837
Depreciation – leasehold improvements	**16,948**	72,960
Total depreciation	**55,590**	118,797
Finance costs		
Interest expense	**5,562**	7,790
Total finance costs	**5,562**	7,790
Other expenses		
Accounting and other professional fees	**104,677**	126,022
Audit fees	**64,793**	57,280
Consultants fees	**320,667**	945,302
Employee benefits expense	**2,715,088**	2,889,930
Insurance	**88,679**	80,500
Legal fees	**164,260**	224,700
Share-based employee benefits	**34,001**	79,433
Share registry and stock listing fees	**60,641**	76,522
Other expenses	**929,682**	1,401,169
Total other expenses	**4,482,488**	5,880,858
Impairment of assets		
Capitalised Exploration expenditure	**513,266**	-
Capitalised Evaluation Expenditure	**27,726,264**	-
Total impairment of assets	**28,239,530**	-
Loss on sale of tenements	**481,679**	-
Total loss on sale of tenements	**481,679**	-

NOTE 7: INCOME TAX

	2016 $	2015 $
(a) Income tax expense		
Current tax	-	-
(b) Operating loss before income tax expense	(31,924,936)	(4,208,137)
Tax at the Australian tax rate of 30% (2015: 30%)	(9,577,481)	(1,262,441)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
• Entertainment	4,300	6,072
• Share-based payments	10,201	23,830
• Sundry items not deductible (assessable)	(284,400)	(354,069)
• Deferred tax assets relating to tax losses and temporary differences not recognised	2,597,432	6,032,156
• Temporary differences not recognised	7,249,948	(4,445,548)
Income tax benefit	-	-
(c) Deferred tax assets and liabilities not recognised relate to the following:		
Deferred tax assets		
Tax losses	51,296,170	51,620,475
Other temporary differences	282,656	424,900
Deferred tax liabilities		
Other temporary differences	(26,137,796)	(34,477,169)
Net deferred tax assets	25,441,030	17,568,206

The franking account balance at year end was $nil (2015: $nil). All unused tax losses were incurred by Australian entities.

Net deferred tax assets have not been brought to account as it is not probable within the immediate future that tax profits will be available against which deductible temporary differences and tax losses can be utilised.

The Company has not yet lodged its current 30 June 2016 rebate claim for Research and Development (R&D) and as such has not recognised any amount in the financial statements for the 30 June 2016 period.

NOTE 8: CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	2016 $	2015 $
Cash at bank and in hand	**1,093,001**	2,389,656
Bank deposits (1)	**10,450,000**	14,225,826
	11,543,001	16,615,482

(1) All bank deposits mature within three months of 30 June 2016

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

Reconciliation to cash at the end of the year

Balances as above	**11,543,001**	16,615,482
Balances as per statements of cash flows	**11,543,001**	16,615,482

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

NOTE 9: CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	2016 $	2015 $
Sundry debtors	**339,960**	39,704
Security bonds	**75,826**	-
Goods & services tax paid	**25,145**	94,546
Other receivables	**40,422**	73,273
	481,353	207,523

(a) Fair value and credit risk

The fair value of securities held for certain trade receivables is insignificant as it is the fair value of any collateral sold or re-pledged. Refer to note 2 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

(b) Impaired receivables and receivables past due

None of the current receivables are impaired or past due but not impaired

NOTE 10: NON-CURRENT ASSETS - OTHER ASSETS

	2016 $	2015 $
Security Bonds	**254,044**	256,307
	254,044	256,307

NOTE 11: 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 2015						
Opening book amount	37,771	34,234	14,874	-	107,225	194,104
Additions	4,734	29,387	-	-	75,889	110,010
Disposals	-	-	-	-	-	-
Depreciation charge	(5,671)	(2,730)	(7,201)	-	(8,371)	(23,972)
Closing book amount	36,834	60,891	7,673	-	174,743	280,142
At 30 June 2015						
Cost or fair value	82,302	774,265	99,916	203,308	169,488	1,329,279
Accumulated depreciation	(59,962)	(729,702)	(91,656)	(203,308)	(59,334)	(1,143,962)
Net book amount	22,340	44,563	8,260	-	110,154	185,317
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

NOTE 12: NON-CURRENT ASSETS – DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

	2016 $	2015 $
Exploration, evaluation and development costs carried forward		
Balance at beginning of year	**114,923,897**	111,602,476
Capitalised exploration expenditure	**553,094**	297,782
Capitalised evaluation expenditure [(a)]	**3,368,644**	5,287,574
Carrying value of disposed Mt Porter and Frances Creek tenements	**(781,679)**	-
Impairment of exploration expenditure	**(513,266)**	-
Impairment evaluation expenditure [(b)]	**(27,726,264)**	-
R&D Tax Incentive rebate receipted against capitalised evaluation costs	**(2,515,992)**	(2,263,935)
Balance at end of year	**87,308,434**	114,923,897

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

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

(b) During the year, the Board of the Company conducted a review of the carrying value of non-current assets. As a consequence of the review, the Board has identified a non-cash impairment charge to previously capitalised evaluation assets of $27,713,854. This impairment charge was initially recognised in the financial statements for the half year ended 31 December 2015.

The Nolans flowsheet has been developed over a number of years and is supported by detailed process modelling from mine to final products. The anticipated impairment charge has resulted from a review of the deferred evaluation costs for the Nolans Project and specifically those incurred in the development of the now superseded hydrochloric acid ("HCl") pre-leach flowsheet.

The most recent operating (OPEX) and capital expenditure (CAPEX) estimates (ARU: ASX 28/06/16) demonstrates the significant operational efficiencies of the current flowsheet when compared with the HCl flowsheet. The Project's current flowsheet has provided significant Project improvements and as such it is logical to review the capitalised expenditure relating to evaluation of the HCl flowsheet to determine if the deferred evaluation costs should continue to be carried forward as an asset.

The Company has taken a conservative approach and decided to expense the evaluation costs for the demonstration-scale HCl pre-leach and sulphation program in 2011 and 2012. Additionally, some smaller scale testwork expenses for co-products and the recycle of reagents that were specific to the HCl flowsheet have also been expensed; however the majority of the impairment charge relates to the demonstration-scale program. The Company continues to leverage its flowsheet development with the data collected through all prior testwork programs but the data and information generated from the demonstration-scale work has limited relevance and benefit to the ongoing development programs. Arafura believes it is prudent to make the relevant adjustment to better reflect the financial position of the Company.

Impairment of $513,266 was also recognised for previous exploration expenditure due to the relinquishing or sale of previously held tenements as well as an amount of $12,410 for costs in relation to the Whyalla EIS.

As noted, the impairment charge is non-cash in nature and has no bearing on future cash flows or the cash position of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2016

NOTE 13: CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	2016 $	2015 $
Current		
Trade creditors [a]	**239,153**	522,535
Trade and other accruals	**206,368**	540,724
PAYG and payroll tax liabilities	**40,527**	17,628
	486,048	1,080,887

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

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

NOTE 14: CURRENT AND NON-CURRENT LIABILITIES - PROVISIONS

	2016 $	2015 $
Current		
Provision for annual leave [a]	**202,187**	226,120
Provision for lease incentive [b]	**76,041**	182,500
Provision for restoration of exploration expenditure	**182,450**	-
	460,678	408,620
Non-current		
Provision for long service leave	**276,127**	237,815
Provision for lease incentive	**-**	76,042
	276,127	313,857

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

(b) Amortised from December 2014 until November 2016.

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

	2016 $	20154 $
Leave obligations expected to be settled after 12 months	**90,984**	101,754

NOTE 15: EQUITY – CONTRIBUTED EQUITY

	2016 Shares	2015 Shares	2016 $	2015 $
Share capital				
Ordinary shares				
Fully paid	**441,270,644**	441,270,644	**194,128,196**	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-14	Balance	441,270,644		194,128,196
	Nil	-	-	-
30-Jun-15	Balance	441,270,644		194,128,196
	Nil	-	-	-
30-Jun-16	Balance	441,270,644		194,128,196

(i) Capital risk management

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

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

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

NOTE 16: EQUITY – RESERVES

	Notes	2016 $	2015 $
Reserves			
Share-based payments reserve		**11,629,350**	11,595,349
		11,629,350	11,595,349
Movements			
Share-based payments reserve			
Balance 1 July 2015		**11,595,349**	11,515,916
Option expense	27(c)	**34,001**	79,433
Balance 30 June 2016		**11,629,350**	11,595,349

(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 17: EQUITY – ACCUMULATED LOSSES

	2016 $	2015 $
Balance 1 July 2015	**(75,338,383)**	(71,130,246)
Net loss for the year	**(31,924,936)**	(4,208,137)
Balance 30 June 2016	**(107,263,319)**	(75,338,383)

NOTE 18: STATEMENT OF CASH FLOWS RECONCILIATION

	2016 $	2015 $
Net (loss)	**(31,924,936)**	(4,208,137)
Depreciation and amortisation	**55,590**	118,797
Impairment on assets	**28,239,530**	-
Loss on sale of tenements	**481,679**	-
Unrealised FX loss/(gain)	**(12,861)**	(16,193)
Share-based employee benefits	**34,001**	79,433
(Increase)/decrease in trade & other receivables	**77,471**	(30,481)
Increase/(decrease) in trade & other payables	**(259,229)**	(200,096)
Increase/(decrease) in other provisions	**(168,119)**	344,160
Net cash (outflow) from operating activities	**(3,476,874)**	(3,912,517)

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

NOTE 19: KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

	2016 $	2015 $
Short-term employee benefits	**1,690,502**	1,894,261
Post-employment benefits	**188,571**	201,857
Long-term benefits	**22,495**	206,641
Termination benefits	**169,750**	-
Share-based payments	**29,578**	40,887
	2,098,896	2,343,646

Detailed remuneration disclosures are provided in sections A-E of the remuneration report on pages 19 to 27.

(b) Equity instrument disclosures relating to key management personnel

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

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

(ii) Loans to key management personnel

In the 2015 and 2016 financial year, there were no loans to individuals at any time.

(iii) Other transactions with key management personnel

In the 2015 and 2016 financial year, there were no transactions with individuals at any time.

NOTE 20: REMUNERATION OF AUDITORS

	2016 $	2015 $
1. Audit services		
BDO Audit (WA) Pty Ltd		
Audit and review of financial reports	**64,794**	57,280
Total remuneration for audit services	**64,794**	57,280

NOTE 21: COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

No 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:

	2016 $	2015 $
Within one year	**282,353**	253,621
Later than one year but not later than five years	**139,340**	121,527
Later than five years	**-**	-
	421,693	375,148

(c) Contingencies

No contingent liabilities exist at reporting date.

NOTE 22: EARNINGS PER SHARE

	2016 Cents	2015 Cents
(a) Basic loss per share		
Basic loss per share (cents per share)	**(7.2)**	(0.9)
(b) Diluted loss per share		
Diluted loss per share (cents per share)	**(7.2)**	(0.9)

	2016 $	2015 $
Net (Loss)	**(31,924,936)**	(4,208,137)
(Loss) used to calculate basic earnings per share	**(31,924,936)**	(4,208,137)
(Loss) used to calculate diluted earnings per share	**(31,924,936)**	(4,208,137)

	2016 Number of shares	2015 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	**441,270,644**	441,270,644
Weighted average number of ordinary shares used in calculating diluted earnings per share	**441,270,644**	441,270,644
Weighted average number of ordinary shares from option conversions which are dilutive and potential ordinary shares that are not used in calculation of diluted earnings per share	**-**	-

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

NOTE 23: RELATED PARTY TRANSACTIONS

(a) Parent entity

The parent entity within the Group is Arafura Resources Limited. The ultimate Australian parent entity is Arafura Resources Limited which at 30 June 2016 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 2016 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 24.

(c) Key management personnel

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

(d) Transactions with related parties

There were no transactions with related parties in the year ended 30 June 2016.

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

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

(f) Loans to/from related parties

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

(g) Terms and conditions

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

NOTE 24: SUBSIDIARIES

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

Name of entity	Country of incorporation	Class of share	Equity holding	
			2016 %	2015 %
Arafura Rare Earths Pty Ltd	Australia	Ordinary	100	100
Arafura Rare Earths Processing Pty Ltd	Australia	Ordinary	100	100
Arafura Iron Pty Ltd	Australia	Ordinary	100	49
Arafura Land Holdings Pty Ltd	Australia	Ordinary	100	100

NOTE 25: INTERESTS IN POSSIBLE JOINT VENTURES/OPERATIONS

In order to create additional shareholder value through Arafura's non-core assets, Arafura entered into several agreements (to which various parties will farm-in to Arafura assets) and if all appropriate investment criteria are met, could result in an ultimate Joint Venture/Operation.

At 30 June 2016 Rox Resources Ltd (ASX: RXL, or "Rox") holds a 51 per cent interest in the base and precious metal rights on EL 29701, and has elected to earn 70 per cent by spending an additional $1 million on the tenement by December 2016.

At 30 June 2016 Ark Mines Ltd (ASX: AHK, or "Ark") holds a 40 per cent interest in the Mining Farmin and Joint Venture Agreement with Arafura over the Mt Porter and Frances Creek gold tenements. Ark has elected to earn a further 30 per cent interest in the tenements and gold rights by agreeing to spend the greater of $1.6 million or the aggregate amount necessary to satisfy tenement conditions, on or before 14 July 2017.

In June the Company entered into a sale and assignment agreement with Ark for the Mt Porter tenements and Frances Creek gold rights. This transaction is subject to a number of third party consents and upon completion the Farmin Agreement with Ark will be terminated.

The tenements and gold rights the subject of the Farmin Agreement, and the transaction are shown in Appendix A under the Frances Creek and Mt Porter project headings. Ark will pay $275,000 for 100% ownership of the Mt Porter tenements and $25,000 for the Frances Creek gold rights. In addition to the cash consideration Ark will also pay the Company a 2.5% royalty on gross sales of gold from ore mined at Mt Porter and Frances Creek. Ark is required to make the cash payments on or before 7 September 2016 in order for the transfer of the tenements and gold rights to be completed.

A listing of Arafura's tenements held at 30 June 2016, including the rights held/relinquished can be found on the last page of the financial report.

NOTE 26: EVENTS OCCURRING AFTER THE REPORTING DATE

No matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect:

a) the Group's operations in future financial years, or

b) the results of those operations in future financial years, or

c) the Group's state of affairs in future financial years.

NOTE 27: SHARE-BASED PAYMENTS

Employee option plan

The establishment of the Arafura Resources Limited Employee Share Option Plan (ESOP) was approved by shareholders at the 2013 AGM. At the upcoming 2016 AGM a new ESOP will be considered for resolution by shareholders. 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	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of year	Vested and exercisable at end of year
			Number	Number	Number	Number	Number	Number
Consolidated – 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

Grant date	Expiry date	Exercise price	Balance at start of year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of year	Vested and exercisable at end of year
			Number	Number	Number	Number	Number	Number
Consolidated – 2015								
15-Jul-11	16-Jul-14	$0.960	900,000	-	-	(900,000)	-	-
15-Nov-11	31-Dec-14	$0.810	600,000	-	-	(600,000)	-	-
25-Nov-11	24-Nov-14	$0.700	1,750,000	-	-	(1,750,000)	-	-
10-Jan-13	31-Dec-15	$0.230	1,878,000	-	-	-	1,878,000	1,878,000
18-Jul-13	18-Jul-16	$0.140	6,750,000	-	-	(100,000)	6,650,000	6,650,000
30-Sep-14	30-Sep-18	$0.105	-	5,190,000	-	(345,000)	4,845,000	-
20-Nov-14	20-Nov-18	$0.105	-	3,000,000	-	-	3,000,000	-
Total			**11,878,000**	**8,190,000**	**-**	**(3,695,000)**	**16,373,000**	**8,528,000**
Weighted average exercise price			$0.33	$0.11	-	$0.77	$0.13	$0.16

NOTE 27: SHARE-BASED PAYMENTS (CONT)

The weighted average remaining contractual life of the share options outstanding at the end of the period was 1.25 years (2015: 2.07 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.

(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:

	2016 $	2015 $
Options issued under the executive & employee option plan	**34,001**	79,433
	34,001	79,433

NOTE 28: PARENT ENTITY FINANCIAL INFORMATION

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

	2016 $	2015 $
Arafura Resources Ltd (Parent)		
Statement of Financial Position		
Current assets	**12,277,371**	17,078,282
Total assets	**99,534,635**	132,188,526
Current Liabilities	**764,279**	1,489,507
Total Liabilities	**1,040,407**	1,803,363
Shareholders Equity		
Issued Capital	**194,128,196**	194,128,196
Reserves		
Option Reserve	**11,629,350**	11,595,349
Retained Earnings	**(107,263,318)**	**(75,338,382)**
Total Equity	**98,494,228**	**130,385,163**
Loss for the year	**(31,924,936)**	**(4,208,137)**
Total comprehensive Loss	**(31,924,936)**	(4,208,137)

The parent entity has provided no guarantees in respect of the loans provided to subsidiaries.

All commitments and contingencies of the Group are held in the name of the Parent entity. Refer note 21 for full disclosure of these items.

DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2016

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 2016 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 19 to 27 of the Directors' report (as part of the audited Remuneration Report), for the year ended 30 June 2016 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

Ian Kowalick
Chairman

21 September 2016

ARAFURA RESOURCES LIMITED | ANNUAL REPORT 2016

INDEPENDENT AUDITOR'S REPORT

To the members of Arafura Resources Limited

Report on the Financial Report

We have audited the accompanying financial report of Arafura Resources Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

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INDEPENDENT AUDITORS REPORT (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2016

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PO Box 700 West Perth WA 6872
Australia

INDEPENDENCE

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

OPINION

In our opinion:

(a) the financial report of Arafura Resources Limited is in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in pages 19 to 27 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

OPINION

In our opinion, the Remuneration Report of Arafura Resources Limited for the year ended 30 June 2016 complies with section 300A of the Corporations Act 2001.

BDO Audit (WA) Pty Ltd

JARRAD PRUE
Director

Perth, 21 September 2016

SHAREHOLDER INFORMATION

OF ARAFURA RESOURCES LTD

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

1. Statement of issued capital at 31 August 2016:

(a) Distribution of fully paid ordinary shareholders

Size of holding	Number of shareholders	Number of shares
1 – 1000	1,046	523,414
1,001 – 5,000	1,948	5,800,229
5,001 – 10,000	1,221	10,043,303
10,001 – 100,000	2,364	79,765,456
100,001 – and over	363	345,138,242
	6,942	**441,270,644**

(b) There are no restrictions on voting rights attached to ordinary shares. On a show of hands, every member present in person shall have one vote and upon a poll, every member present or by proxy shall have one vote for every share held.

(c) As at 31 August 2016, there existed 3,588 shareholders who held less than a marketable parcel of shares.

2. Substantial shareholders at 31 August 2016 as per their notices:

Name	Ordinary shares %
ECE Nolans Inv CO PL	24.86%
JP Morgan Nom Aust Ltd	21.50%

SHAREHOLDER INFORMATION

OF ARAFURA RESOURCES LTD

3. Quotation

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

As at 31 August 2016, the twenty largest shareholders held 254,835,985 of the total fully paid ordinary shares in Arafura Resources Limited and they are:

No.	Name	Shares	% of issued
1	ECE Nolans Investment Company Pty Ltd	109,699,833	24.86
2	JP Morgan Nominees Australia Limited	94,861,797	21.50
3	Citicorp Nominees Pty Limited	11,894,232	2.70
4	HSBC Custody Nominees (Australia) Limited	8,016,685	1.82
5	Mr Jin Koo Lee	4,013,291	0.91
6	BNP Paribas Noms Pty Ltd	3,065,312	0.69
7	Mr Zhigang Wang	2,994,278	0.68
8	National Nominees Limited	2,666,369	0.60
9	Merrill Lynch (Australia) Nominees Pty Limited	2,205,900	0.50
10	Mr David John Harrison	2,007,559	0.45
11	Finxl Pty Ltd	1,837,200	0.42
12	Mr Julian Paul Leach	1,774,252	0.40
13	Mr Dachang Yu	1,517,507	0.34
14	Gule Investments Pty Ltd	1,431,125	0.32
15	National Nominees Limited	1,331,497	0.30
16	Mr Jing Wang	1,197,838	0.27
17	Mr Jiesheng Gu	1,144,000	0.26
18	Mr Christopher David Johnson & Mrs Carol Anne Johnson	1,090,000	0.25
19	Ms Qinyuan Yao	1,070,188	0.24
19	ABN Amro Clearing Sydney Nominees Pty Ltd	1,017,122	0.23
		254,835,985	

SHAREHOLDER INFORMATION (CONTINUED)

OF ARAFURA RESOURCES LTD

The Group holds the following interests as indicated below as at 30 June 2016:

Tenement reference	Project	Holder	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter	Notes
ML 26659	Nolans, NT	Arafura Rare Earths Pty Ltd	Mineral Lease	100%	100%	Application Lodged
ML 30702				100%	100%	Application Lodged
ML 30703				100%	100%	Application Lodged
ML 30704				100%	100%	Application Lodged
EMEL 30510			Extractive Mineral Exploration Licence	100%	100%	
EL 28473	Aileron–Reynolds, NT	Arafura Resources Ltd	Exploration Licence	100%	100%	
EL 28498				100%	100%	
EL 29509				100%	100%	
EL 24741				100%	0%	Surrendered
EL 30160				100%	100%	Application lodged
EL 31095				100%	100%	Application lodged
EL 31096				100%	100%	Application lodged
EL 31097				100%	100%	Application lodged
EL 31224				100%	100%	Application lodged
EL 31284				100%	100%	
EL 29701	Jervois, NT	Arafura Resources Ltd	Exploration Licence	100%		Rox Resources Ltd (RXL) has acquired 51% of the base and precious metal rights. RXL has a right to acquire up to 70% of the base and precious metals rights

SHAREHOLDER INFORMATION (CONTINUED)

OF ARAFURA RESOURCES LTD

The Group holds the following interests as indicated below as at 30 June 2016:

Tenement reference	Project	Holder	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter	Notes
EL 10137	Frances Creek, NT	Territory Resources Ltd	Gold Rights	100%	60%	Ark Mines Ltd (AHK) has acquired 40% of the gold rights. AHK has the right to acquire up to 70% of the gold rights.
ML 24727			Gold Rights	100%	60%	
ML 27228			Gold Rights	100%	60%	
ML 25087			Gold Rights	100%	60%	
ML 25088			Gold Rights	100%	60%	
ML 25529			Gold Rights	100%	60%	Applications Lodged for ML 27226 & ML 27230
ML 27225			Gold Rights	100%	60%	
ML 27226			Gold Rights	100%	60%	AHK has acquired 40% of the gold rights. AHK has the right to acquire up to 70% of the gold rights.
ML 27230			Gold Rights	100%	60%	
ML 27227		Frances Creek Pty Ltd	Gold Rights	100%	60%	
ML 27229			Gold Rights	100%	60%	Application Lodged for ML 29930
ML 29930			Gold Rights	100%	60%	
MA 389			Gold Rights	100%	60%	
						As at 30 June ARU and AHK have reached an agreement for the sale of Frances Creek. The transfer of the tenement will not be completed until AHK completes the cash settlement.
ELR 116	Mt Porter, NT	Arafura Resources Ltd	Exploration Licence in Retention	100%	100%	AHK has acquired 40% of all mineral rights on the tenements. AHK has the right to acquire up to 70% of all mineral rights on the tenements.
ML 23839			Mineral Lease	100%	100%	
EL 23237			Exploration Licence	100%	100%	AHK has an immediate right to mine ML 23839 subject to regulatory approvals.
						As at 30 June ARU and AHK have reached an agreement for the sale of Mt Porter. The transfer of the tenement will not be completed until AHK completes the cash settlement.

ARAFURA
RESOURCES LIMITED

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