ARAFURA
RESOURCES LIMITED

2018
ANNUAL REPORT

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

ABN 22 080 933 455

CORPORATE DIRECTORY

DIRECTORS

Ian Kowalick
(Chairman and Non-Executive Director)

Gavin Lockyer
(Managing Director and Chief Executive Officer)

Chris Tonkin
(Non-Executive Director)

Terry Grose
(Non-Executive Director)

Quansheng Zhang
(Non-Executive Director)

Mark Southey – appointed 30 January 2018
(Non-Executive Director)

COMPANY SECRETARY

Peter Sherrington

ANNUAL GENERAL MEETING TO BE HELD AT:

Governance Institute of Australia Ltd
8 Victoria Avenue
Perth
Western Australia, 6000

TIME:

9:00am (WST)

DATE:

Thursday, 22 November 2018

PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

Level 3, 263 Adelaide Terrace
Perth
Western Australia 6000

SHARE REGISTRY

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

AUDITOR

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

SOLICITORS

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

BANKERS

Westpac Banking Corporation
Tower 2, Level 3
123 St Georges Terrace
Perth
Western Australia 6000

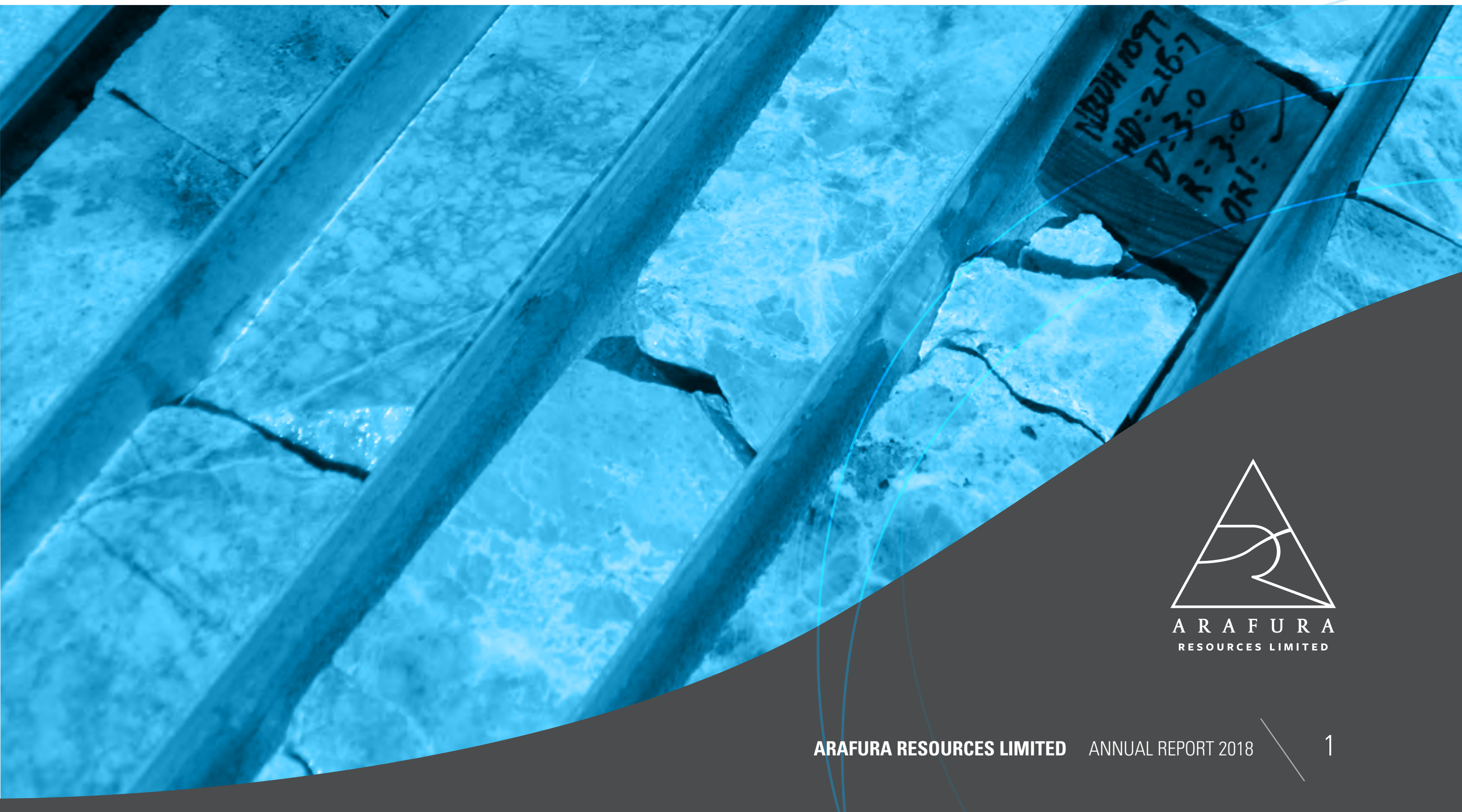
STOCK EXCHANGE LISTING

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

WEBSITE ADDRESS

www.arultd.com

CONTENTS



CHAIRMAN'S REPORT

On behalf of your Board of Directors, it is my pleasure to present the 2018 Annual Report.

The FY2018 has built on the impressive work of the Arafura team, which we reported on in 2017.

The Nolans Project is rapidly approaching a Final Investment Decision, which will follow the Board receiving the results of the Definitive Feasibility Study and project finance secured.

During 2018 your Board thought it prudent to undertake the extensive Pilot Program as an important risk mitigation step for the Nolans Project. Rare earth projects require complex processing plants with a flowsheet matched to a specific resource and their implementation can be fraught with problems. Our Pilot Program mitigates the risk of these issues occurring and is above and beyond the work typically undertaken by a junior resource company developing a mining project.

The Managing Director, Gavin Lockyer will elaborate in more detail on the piloting, but I am delighted to report to shareholders that the first four stages have been completed. We are especially happy that Stage 4 Acid Bake phase has been a success as this was anticipated to be a critical item underpinning the proposed flow sheet. We expect the balance of the Pilot Program to be completed in the coming months.

As we move closer to Final Investment Decision (FID), financial market conditions become more important. The stock market enjoyed a strong year and the resources sector even more so with the ASX300 Metals & Mining Index up 34% in FY2018. However, for junior resources companies the market was not quite as unambiguously bullish as FY2017. Exuberance over the outlook for lithium – in our view an important analogue of sentiment towards technology metals stocks like Arafura that are critical to electric vehicles (EVs) – waned in 2018. The lithium price gave up much of the gains it made the previous year. Similarly, the cobalt price weakened sharply late in the financial year.

While the prices of the various technology metals fluctuate and has a disproportionate impact on stocks in the EV 'basket', it is Arafura's view that this is more related to the supply outlook for each of the metals and not to demand. It seems clear the trend towards EVs and hybrid EVs (HEVs) will continue to grow.

Most importantly for Arafura, the price of Neodymium and Praseodymium (collectively NdPr) trended up for the year – albeit in a volatile manner. It closed FY2018 at US$53/kg up over 11%; the second consecutive year of annual price rises, and now approaches an increase of 30% in the last 2 years. As a comparison, NdPr's price performance for FY2018 is in line with copper and nickel but substantially ahead of gold, uranium, and zinc.

What about the future? We cannot provide any explicit forecasts but the NdPr demand outlook appears positive. As a recent story in the *New York Times* put it: "It is hard to go a day without using rare earths. They are found in personal electronics like smartphones, televisions and hair dryers, and electric and hybrid cars." It is this latter category which gives us the greatest cause for optimism.

The penetration of the auto industry by EVs and HEVs seems unstoppable. China's announcement in September 2017 that it aims to ban the sale of petrol and diesel cars by 2040 has been echoed in most western countries. Germany and the Netherlands aim to ban internal combustion engine cars by 2025 and France would like to do the same by 2040; and India's government wants a ban on the sale of petrol and diesel cars by 2030. In 2017 the mayors of 14 metropolises including Paris, Los Angeles, Auckland and Cape Town committed themselves to purchasing only zero-emissions buses from 2025, and to making much of their cities emissions-free by 2030.

CHAIRMAN'S REPORT (continued)

The International Energy Agency's forecast, based on assessments of country targets, original equipment manufacturer announcements and scenarios on EV deployment, is that the number of EVs will range between 9 million and 20 million by 2020 and between 40 million and 70 million by 2025.

This analysis provides a bullish outlook for demand for NdPr. Estimates vary but existing internal combustion vehicles use between 0.2-0.7 kg of NdPr per vehicle, whilst EVs can use between 1-2 kg. The smaller size/weight, higher torque density and improved efficiency of permanent magnet motors compared to induction motors makes them attractive for use in EVs and HEVs as they provide better acceleration, easier control, reduced vehicle weight and space savings for other components. Together with other sources of demand, such as wind turbines which use 100-200 kg of NdPr per MW of installed capacity, the picture becomes even more positive.

According to a recent independent analysis by UBS the NdPr market is expected to almost double between now and 2025, from approximately 30,000 tpa to 55,000 tpa. This forecast growth is timely for Arafura.

On the supply side, China still dominates supply with approximately 80-85% of production. However, China's war on pollution and reform of industrial capacity means that the production and export of rare earths have had a public policy-driven constraint imposed on the output of the world's largest producer. As recently as July 2018, *Reuters* reported that state-owned Chinalco instructed its rare earths unit in China's Guangxi region to suspend production operations after inspectors found the company breached environmental rules. Separately, China's Ministry of Ecology and Environment announced that inspectors in another of China's rare earths hubs, Baotou in Inner Mongolia, had found that mining slag was being dumped illegally and the quantity and quality of the dumped material was "shocking". It is Arafura's view that this crack down will constrain production for export of NdPr by China.

Outside of China, there is better transparency on supply. It takes almost ten years or more to advance a rare earth project from discovery to full-scale commercial mining so we have good intelligence on emerging supply. Excluding Nolans, our expectation is that expansion by Lynas is the only meaningful potential incremental growth to NdPr supply. It is also our assessment that China's domestic NdPr consumption will increase by over 30% in the next five years as it pursues clean energy objectives and global leadership in EV manufacturing. Increased NdPr consumption combined with constrained supply could result in China moving from being the world's major source of NdPr to a net importer by the early 2020s. This would be a very significant development.

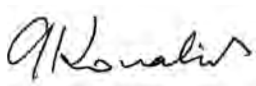
It is within this market outlook that we approach the financing of Nolans in the coming year. A project of Nolans' scale will require an appropriate mix of debt and equity financing. The Company has begun engagement with the debt capital markets community and the Executive team has been particularly active educating equity market participants about the Nolans Project. The Managing Director, Gavin Lockyer, and the Chief Financial Officer, Peter Sherrington, have put a lot of effort into multiple roadshows in Australia, Asia and North America and presented at numerous conferences.

These efforts have been rewarded. In last year's Annual Report, I drew attention to the fact that Arafura's share price in FY2017 had enjoyed its best annual performance since FY2011. The share price performance in FY2018 has exceeded that, touching a four-year high and appreciating 57% over the 12 months. This makes Arafura one of the top share price performers in the ASX listed rare earths peer group.

The Company was able to raise additional capital in 2018 to support its progress towards the completion of the Nolans Definitive Feasibility Study (DFS). In October 2017 Arafura raised $3.1 million at $0.11/share and saw almost a dozen institutional investors – largely offshore - join the Company's register. It closed the financial year in a solid financial position. Whilst Australian institutional investors have been slow to embrace the Arafura story, offshore investors have demonstrated an understanding of the importance of NdPr and consequently a stronger appetite to invest. It is our expectation that as the NdPr story unfolds in the coming year and Arafura demonstrates the potential of Nolans, local investors will gain a better appreciation of the potential of the Company.

On behalf of the Board I would like to thank my fellow directors, the Managing Director, Gavin Lockyer, and all the members of his team for their contribution to the Company's progress this year. Shareholders can be assured that every possible measure is being pursued to reach FID on Nolans in the near future. The Company has assembled a highly experienced team of people, the Pilot Program has shown excellent results and the financial community has been supportive. I am excited at the prospects for the important year ahead.

Yours Sincerely



Ian Kowalick
Chairman

MANAGING DIRECTOR'S REVIEW

FY2018 has been an extremely busy period for the company. The Arafura Executive Team has been pleased with the progress to date, particularly on the technical and regulatory approval fronts.

We remain confident of delivering the Nolans Definitive Feasibility Study at the end of calendar 2018 and a Final Investment Decision thereafter.

Arafura will be one of the few companies worldwide in a position to make a Final Investment Decision on the development of an NdPr project in what we anticipate to be a rising price environment for our products. This will mark the culmination of many, many years of work by your Company.

Progressing through the seven stage Pilot Program has been a key focus of management this year and we are pleased to report that, thus far, it has been a success. As the Chairman indicated, the Pilot Program is an extraordinary step designed to mitigate future risk during the planned production ramp-up phase of Nolans. Key objectives of the Pilot Program are to acquire process performance, materials handling and mechanical engineering design data for the Nolans DFS, as well as to generate sufficient quantities of final NdPr product to allow for a comprehensive program of pre-qualification testing by Arafura's key customers in the rare earth magnet manufacturing sector.

So far, we have completed steps 1-4 of the seven phases of piloting. Importantly, we have recently completed Phase 4 Acid Bake – albeit slightly behind schedule. Shareholders should understand how important this step is. The acid bake phase is a critical unit of operation in any rare earth plant and getting it wrong has proven costly to other companies' projects in the past, causing delays in commissioning, production and additional cost.

This phase of testing uses concentrated sulphuric acid to convert rare earth minerals in pre-leach residue (PLR) to water-soluble rare earth sulphate material. An important feature of Arafura's Acid Bake pilot is the adoption of paddle dryer technology for both baking and subsequent cooling of the sulphated material. Paddle dryers are used in a variety of applications and offer substantial operational advantages over rotary kilns – not the least of which is dramatically lower operating temperatures.

Phase 4 involved the treatment of over 2 tonnes of PLR and we regard it as the most significant execution risk item for the Nolans flowsheet. It was a great success. As I informed the market on August 31, 2018: "We and our partners in this pilot are comfortable in concluding that paddle dryer technology is highly suitable for processing Nolans NdPr-rich pre-leach residue material."

At the time of this writing the Company is directing its immediate efforts to water leach processing of the sulphated material and to completing phases 5 and 6 of the Pilot Program, collectively termed Rare Earth Processing. Then comes Phase 7: Rare Earth Separation. We expect the entire program to be complete before the end of CY2018.

I think it is important to highlight to shareholders the steps the Board has taken to put the Company in the best position possible to execute the DFS by bringing in appropriate expertise required at this stage of the Company's development. In January 2018, Mark Southey, previously Worley Parsons Group Managing Director for Minerals, Metals and Chemicals, agreed to join the Arafura Board. As a former member of Worley Parsons global executive leadership team, it is hard to overstate the depth of experience Mark brings to the Company. In March 2018, Stewart Watkins, a chemical engineer with 25 years' experience, was appointed as Nolans Project Manager. As Managing Director, I am

MANAGING DIRECTOR'S REVIEW (continued)

certainly appreciative of the decades of knowhow these two executives can bring to bear on our project.

To help manage the data yielded from the Pilot Program, in March 2018 Arafura named Hatch as the Lead Engineering Study Manager for the DFS. We are extremely pleased to have secured Hatch's expertise in this regard and its appointment gives the Executive team enhanced confidence in the delivery of the DFS. Hatch is a globally recognised tier one engineering consultancy that has a wealth of knowledge and technical expertise in mineral processing, hydrometallurgy, detailed design and DFS development for rare earth projects and specialty minerals companies. It has recently completed several similar engagements with clients comparable to Arafura and has direct access to a global network of procurement professionals, potentially allowing it to source lower cost solutions for the Nolans Project.

As I foreshadowed this time last year we expected further progress on environmental regulatory approval in 2018. For mining projects, the environmental approvals process can often be long and torturous leading to lengthy delays for project timelines, often extending to years. However, I am extremely gratified to report that, for Nolans, this has not been the case. In January 2018, after a relatively straightforward assessment process, the Nolans Project was recommended for approval by the Northern Territory EPA. Similarly, in May 2018 the project received Federal Government approval. This is the culmination of a detailed body of work that commenced at the Nolans site in 2006. Most importantly, it represents the final step in the project's environmental assessment and is a key milestone towards Nolans FID.

Whilst the Federal Government's approval recommends a number of conditions, some of which relate to important project environmental aspects such as biodiversity, groundwater and radiation, these are regarded as fairly uncontroversial and easily satisfied. Arafura will incorporate these and the Northern Territory's conditions in the final Mining Management Plan (MMP) for the project.

On its current schedule the Company anticipates granting of the Mineral Lease by the Northern Territory Government in the first half of CY19. However, this will only come once Arafura submits the Nolans MMP to the Northern Territory Government, expected by end CY18, and then completes the negotiation of the Indigenous Land Use Agreement with the local Traditional Owners. We expect this to occur in the first half of CY19. Final project construction and operating approvals will be obtained when the Northern Territory Government issues a mining authorisation and approves the activities in the MMP.

With respect to the outlook for Arafura, my optimism continues unabated. We have passed the half-way point in our Pilot Program, and this has more than met our expectations. Our cash balance at year end was approximately $8 million, augmented by a modest equity raising early in the new financial year. We have ticked the critical environmental approvals box and we have been able to raise capital from the equity market as required. We have assembled the right level of expertise to take the Company through the DFS and we are approaching its completion.

We continue to work on multiple other fronts. These include advancing NdPr offtake arrangements as well as continuing to engage with strategic partners for capital equipment procurement and project funding. The coming 12 months will indeed be decisive for the Company.

In closing I would like to acknowledge the vital contributions of our team again this year and the prudent decision making of the Board. Our staff and contractors have continued to work with dedication to the goal we are all striving towards - bringing Nolans to FID and ultimately production. Finally, on behalf of Arafura I want to thank shareholders for their support. We are all looking forward to a transformational year ahead.

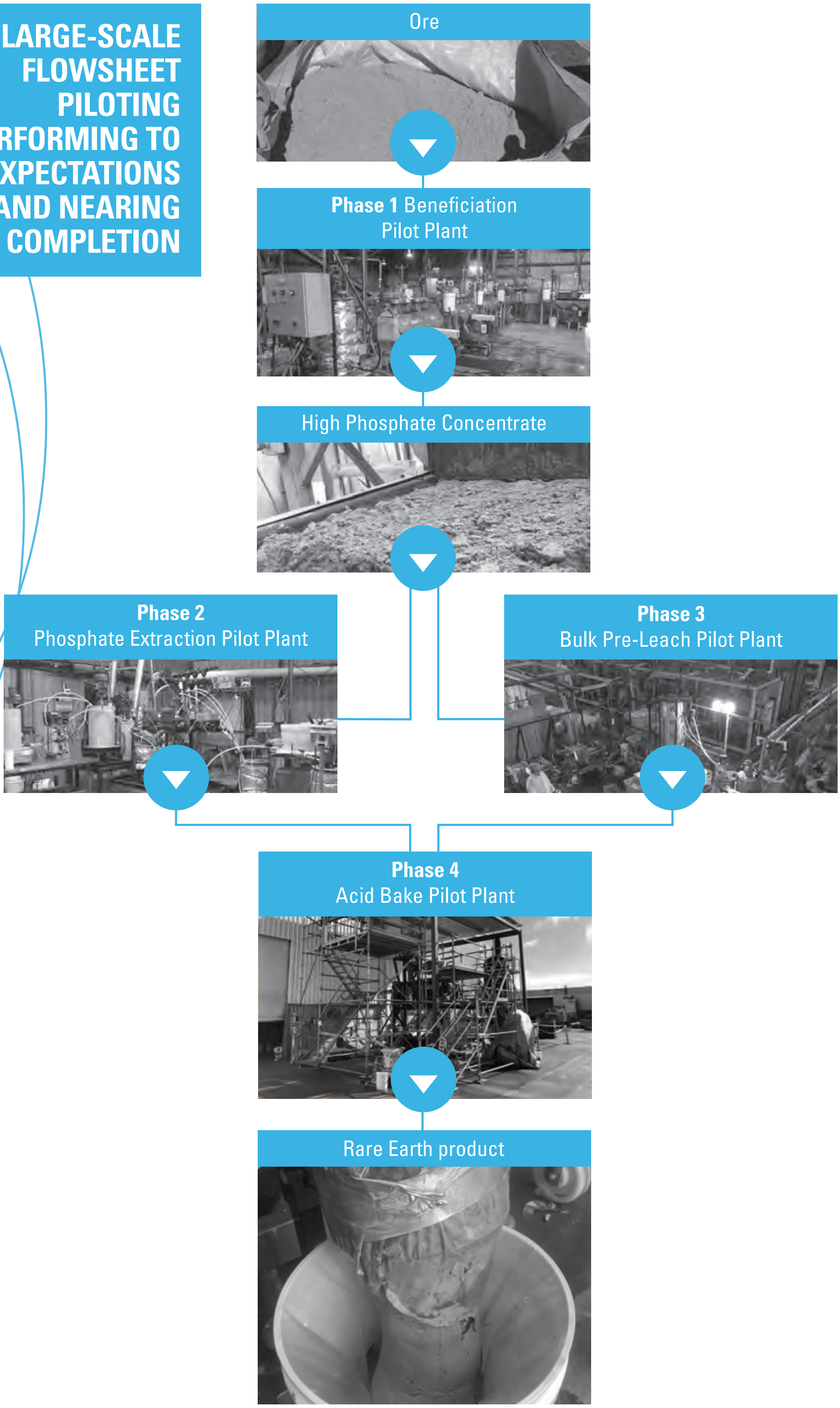
Gavin Lockyer
Managing Director

Environmental Assessment Completed

NT Environment Protection Authority (EPA) Recommends Environmental Approval
"The NT EPA considers that ...... the Project can be managed in a manner that ..... avoids significant or unacceptable environmental impacts and risks."

OPERATIONS REPORT

LARGE-SCALE FLOWSHEET PILOTING PERFORMING TO EXPECTATIONS AND NEARING COMPLETION



OPERATIONS REPORT (continued)

The Company first unveiled details of its phosphoric acid pre-leach flowsheet in June 2016, which it considers has the potential to deliver a more competitive and efficient project with greater capacity to withstand cyclical downturns in rare earth prices. The planned annual rare earths output of the project is 14,000 tonnes of total rare earth oxide (TREO) equivalent, which includes 3,600 tonnes of the project's most important rare earth product, NdPr oxide. Throughout the piloting program, improvements and refinements have been made to the process targeting higher NdPr recoveries, lower operating costs, and reduced waste streams.

The purpose of piloting is to collect key operational, performance, process, mass balance, mechanical engineering and materials handling data for inclusion in the Nolans Definitive Feasibility Study (DFS). Arafura continues to engage independent third-party specialist consultants and equipment vendors to review the performance of each stage of piloting to support the basis of design, and final capital and operating cost estimates.

As announced in 2017, the first three phases of piloting are complete, delivering results that have met the Company's expectations. In August 2018, the Arafura team delivered the successful completion of the Acid Bake Pilot Plant (Phase 4) following a thorough period of commissioning of all unit operations. The Company is currently planning for the final stages of the pilot program, which relate to Rare Earth Processing and Separation, with a target to complete them by the end of 2018.

PHASE 4 ACID BAKE PILOTING

A feature of Arafura's Phase 4 Acid Bake pilot program is the adoption of paddle dryer technology for both baking and subsequent cooling of the sulphated material. Paddle dryers are used in a variety of applications and offer substantial operational advantages over rotary kilns.

The first stage batch trials of Acid Bake piloting were successfully concluded in October 2017. These trials used NdPr-rich pre-leach residue (PLR) feedstock from the earlier Phase 2 Phosphate Extraction pilot plant and produced excellent NdPr extraction results.

The Company partnered with Bossong Engineering to prepare the continuous larger-scale pilot plant for commissioning and operation to meet Australian Standards. Test work was also performed with SGS Australia (SGS) and Curtin University to develop synthetic inert materials with flow properties that replicated the material used in the October 2017 trials. This was done to optimise each of the pilot's unit operations and finalise the operating parameters in preparation for continuous large-scale piloting.

The Acid Bake continuous pilot was commissioned and operated in July-August 2018 with the plant monitored to acquire process performance and mechanical engineering design data for the DFS. In August 2018, Arafura announced that the pilot ran continuously over a four-day period at SGS processing approximately 2.6 tonnes of PLR from the Phase 3 Bulk Pre-Leach pilot. A representative of paddle dryer manufacturer Andritz Gouda who attended the duration of the pilot provided technical support, assisted with setting operating parameters, and collected process data for DFS design of the acid bake and cooling paddle dryers.

Acid-PLR Mixing

Acid Bake

Sulphated Material Cooling

OPERATIONS REPORT (continued)

PLANNING ADVANCES ON PHASES 5, 6 AND 7 PILOTING

Scoping and vendor quotes for Phases 5 and 6 of the flowsheet piloting program (collectively termed Rare Earth Processing) have been completed and mobilisation is underway for the pilot set up.

The delay in completion of Phase 4 and the knock-on effect for Phases 5-7 are not expected to delay the completion of the Nolans DFS. The Company already has operational and process data from previous rare earth separation work completed on Nolans feedstock during 2011 and 2012, and feasibility study level-of-accuracy engineering design from a Separation Plant study completed in 2013. Furthermore, the design of the Separation Plant has already been advanced as part of the DFS, and vendor equipment enquiries have commenced.

DEFINITIVE FEASIBILITY STUDY MAKING EXCELLENT PROGRESS

In March 2018, the Company appointed Stewart Watkins as Project Manager for the Nolans Project and Hatch as Lead Engineering Study Manager for the Nolans DFS. This has greatly advanced process engineering work to near completion. To date, over 120 process flow diagrams have been completed and discipline engineering has commenced on process plant layout and non-process infrastructure design.

Arafura has appointed consultants for most DFS tasks, including:

- Mining Plus Pty Ltd (mining engineering and ore reserves);
- Knight Piésold (tailings impoundment and geotechnical evaluation);
- GHD Pty Ltd and Ride Consulting (hydrogeology and water supply);
- Qube Holdings Limited (logistics); and
- Simulus Engineers (process modelling).

The Company anticipates reporting the results of the DFS by the end of 2018.

ENVIRONMENTAL APPROVALS SECURED

In January 2018 the Northern Territory Environment Protection Authority (NTEPA) completed its environmental impact assessment for the Nolans Project, recommending environmental approval by the Northern Territory Government subject to conditions regarding appropriate operational controls.

In May 2018, following comprehensive assessment by the Australian Government under the *Environment Protection and Biodiversity Conservation Act*, the Company received final environmental approval for the project, a key achievement for Arafura in its development history. The Company is currently preparing a Mining Management Plan (MMP) for the project which will incorporate NT EPA and Australian Government environmental approval conditions. Final project construction and operating approvals will be obtained when the Northern Territory Department of Primary Industry and Resources approves the activities in the MMP and issues a mining authorisation.

The Company has also stepped up its groundwater monitoring activities to acquire additional data in support of the environmental approval conditions. The water programs include the monitoring of up to 81 bores and a number of hydrographic stations in local surface water courses. A number of data loggers have been installed to provide continuous groundwater data and increase the frequency of sampling to assess pre-development water quality.

Arafura has invested over $3 million to delineate the Southern Basin groundwater resource and establish bore infrastructure for its exploration and project development activities. This will provide critical baseline groundwater data to be used in the project's Water Management Plan and be an integral part of the MMP required for the grant of the Nolans mineral leases.

THE NdPr INDUSTRY REMAINS IN A STATE OF FLUX

NdPr PRICE PERFORMANCE

The NdPr oxide price achieved significant gains during 2017, and in the period July through to September 2017, the price reached a high of US$79/kg. Prices retreated rapidly in the pre-Christmas period and have since remained relatively subdued, trading in the range US$47/kg-US$58/kg during the first half of 2018.

As of the end of June 2018, the NdPr oxide price had increased 34% from the start of 2017. This can be attributed to tightening of supply resulting from the continued successful application of rare earth environmental and supply reforms in China. Future pricing pressure may also result from the widely forecast increase in NdPr demand for neodymium-iron-boron (NdFeB) permanent magnets in wind turbines, robotics and electric vehicles (EV). This is in direct conflict with constrained Chinese NdPr supply and creates the need for new non-Chinese supply sources.

OPERATIONS REPORT (continued)

RECENT POLICY DEVELOPMENTS

In April 2018, China's Ministry of Industry and Information Technology (MIIT) announced a 40% increase in China's rare earth mining quotas for the first half of 2018. Industry consensus was the impact on supply may not be significant, some concluding the quota increase will allow some existing supply to become legitimate production under the increased quota. Further industry analysis also indicates in the period from 2015 to 2017 China has increased its reliance on imported rare earth concentrate. The net impact of the quota increase may be for imported concentrate to be substituted with domestic feed stock that becomes available through the increased quota.

In early-July 2018 the US Trade Representative applied a 10% tariff on a range of imported goods including rare earth compounds, metals and alloys. The introduction of tariffs traditionally targets increased consumption for locally produced material in substitution of imported products. The US is currently largely reliant on China for the supply of all rare earth materials and it would require considerable time and investment before the tariff could achieve the objective of developing a local rare earth supply chain.

The change to the rare earth quota in China and the introduction of the US tariffs appeared to be significant policy changes but neither initiative have had an immediate impact on NdPr oxide prices.

CHINA EV PROCUREMENT STRATEGY: NdFeB MAGNETS AND LITHIUM-ION BATTERIES

The past twelve months has been an important period for EV policy development globally. China has announced plans to transition to a total EV fleet through the eventual banning of internal combustion engine (ICE) vehicles. Similar policy is being implemented in other countries, including a UK ban on the sale of ICE vehicles by 2040, and Norway moving to all EV by 2025. The governments of France, India and the state of California have all indicated they will follow suit to some degree.

China has been the global trendsetter in establishing its procurement capacity to achieve its objective of being a world leader in the EV manufacturing space. According to *Fortune*, China accounts for 55% of the world's lithium-ion (Li-ion) battery production and is expected to increase to 65% of all production by 2021. China's domestic Li production is a modest 3,000 tonnes per annum but *Lithium Today* estimates in 2017 China consumed almost 50% of the world's Li output. NdFeB permanent magnets are also a key component for EV manufacturing but in stark contrast to Li, China's supply chain procurement status is already well developed to produce NdFeB. China already accounts for 90% of the world's magnet manufacturing capacity and up to 85% of the world's NdPr production.

China has been the leader in the global race for the procurement of critical materials for the manufacture of EVs. Urged on by policy within China its EV manufacturers have aggressively sought to acquire physical assets to ensure material procurement is not the bottleneck to China achieving its goal of being a world leader in the EV space. In addition to maintaining a dominant position in the magnet supply chain, China has also invested heavily in the battery materials supply chain as evidenced by its control of key Li-ion battery components including cathode materials, anode materials, electrolyte solutions and separators.

The proactive investment stance by China in the battery materials space has been a catalyst for EV manufacturers in Japan, Korea and Europe to assess their own procurement requirements as the race escalates to acquire physical assets in the Li space. China does not have the same pressing need for materials in the NdFeB magnet supply chain. Without China leading the investment charge in the NdFeB supply chain, it is an open question whether the other major automotive economies have missed this procurement challenge or are comfortable in accepting that China will continue to meet China's and the rest of the world's NdFeB requirements.

OPERATIONS REPORT (continued)

EXPLORATION

BONYA JOINT VENTURE (BASE AND PRECIOUS METALS; TUNGSTEN; VANADIUM)

EL 29701 (aka the Bonya project) is located 280 kilometres north-east of Alice Springs. Arafura holds a 60% interest in the Bonya project with the remaining 40% currently held by Rox Resources Limited (Rox). Rox has agreed to sell its 40% interest to Thor Mining Plc (Thor).

Settlement and completion of the acquisition by Thor from Rox is now underway. When completed Thor will assume Rox's rights and obligations under the existing JV agreement which requires the parties to contribute to exploration activities in accordance with their relevant interests. In the event one party elects not to contribute to the agreed exploration program, dilution provisions will apply.

CAPITAL RAISING

In October 2017 the Company completed a placement with institutional and sophisticated investors. The placement was completed by two tranches to raise total funds of $3.175 million at $0.11 per share and the combined placements resulted in the issue of 28,859,547 shares. The funds were used for flowsheet piloting, pre-DFS and DFS activities, definition stage engineering, and working capital.

In August 2018, the Company announced a 1 for 4 accelerated non-renounceable entitlement offer which comprised of an institutional entitlement offer and a retail entitlement offer. Arafura intends to use funds raised to progress further development of the Nolans Project by carrying out technology development, engineering and piloting activities necessary to complete the DFS and to enable project execution readiness, and for general working capital purposes. The Company raised a total of $2.35 million through the accelerated Institutional Entitlement Offer and a further $1.85 million through the Retail Entitlement Offer.

Geotechnical test pit excavation - Nolans process plant site

OPERATIONS REPORT (continued)

NAMEPLATE PRODUCTION

Measured and Indicated Mineral Resources at Nolans Bore support the project's nameplate production target of 14,000 tonnes per annum of TREO equivalent. The Mineral Resources were estimated and reported by the Company following the guidelines of the JORC Code 2012. Classification of Total Mineral Resources at Nolans into Measured, Indicated and Inferred resources, using a 1.0% TREO cut-off grade, is shown below.

Nolans Bore Mineral Resources (as at June 2017)

Mineral Resources	Tonnes (Millions)	Rare Earths (% TREO)	Phosphate (% P_2O_5)	NdPr Enrichment (%)
Measured	4.9	3.2	13	26.1
Indicated	30	2.7	12	26.4
Inferred	21	2.3	10	26.5
Total	**56**	**2.6**	**11**	**26.4**

Note: Numbers may not compute due to rounding. 'NdPr Enrichment' is the proportion of TREO comprising Nd_2O_3 and Pr_6O_{11}.

COMPETENT PERSONS STATEMENT

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

GLOSSARY

DFS	Definitive feasibility study
EL	Exploration licence
EV	Electric vehicle
FID	Final investment decision
FY	Financial year
HEV	Hybrid electric vehicle
ICE	Internal combustion engine (vehicle)
MMP	Mining Management Plan
NdFeB	Neodymium-Iron-Boron (magnet)
NdPr	Neodymium-Praseodymium (rare earths)
NTEPA	Northern Territory Environment Protection Agency
PLR	Pre-leach residue
P_2O_5	Phosphate
TREO	Total rare earth oxide

ARAFURA
RESOURCES LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

DIRECTORS' REPORT (continued)

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 2018.

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
- Q. Zhang
- G. Lockyer
- M. Southey [1]

(1) Mr Southey was appointed on the 30th January 2018.

PRINCIPAL ACTIVITIES

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

(a) Nolans Project engineering studies and Pilot Programs;

(b) Mining and associated infrastructure, social, environmental and definitive 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 $5,115,412 for the 30 June 2018 period. The loss is significantly higher than the 2017 period due to an impairment of the Jervois tenement in the current financial year.

Arafura has had a successful 2018 financial year. The Company was able to raise $2,976,404 (after costs) through a private placement conducted at the end of October 2017. This private placement enabled significant progress to the Nolans flowsheet piloting, pre-DFS and DFS activities as well as provide working capital.

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

- In August 2018, the Company announced a 1 for 4 accelerated non-renounceable entitlement offer with both a retail and institutional component. This raising has subsequently been completed, raising a total of $4.2m and resulting in 52,493,994 new shares being issued. The funds raised will enable Arafura to progress further development of the Nolans NdPr Project by carrying out technology development, engineering and piloting activities necessary to complete the DFS and enable execution readiness with an aim to complete by the end of 2018. The Company is able to place the shortfall to institutional investors within 3 months of the close of the entitlement offers.
- Arafura completed its Phase 4 Acid Bake Pilot Plant to expectations in August 2018, with process performance, operating and materials handling data to feed into the Nolans Definitive Feasibility Study. The completion of this critical phase will enable the Company to progress the DFS, with results expected to be reported by the end of 2018.
- Subsequent to the completion of the Acid Bake Program, work began to assess the geotechnical conditions for the proposed Nolans process plants, tailings dams and associated infrastructure.
- The Company received a R&D tax rebate during the 2017-2018 year. The incentive is a jointly administered program between AusIndustry and the Australian Taxation Office. The Company has received over $35 million from R&D rebates since the incentive began.

DIRECTORS' REPORT (continued)

- The Company has commenced development of a comprehensive Mining Management Plan (MMP) following confirmation of design from the Definitive Feasibility Study (DFS) progression. The MMP is being prepared to include the recommended environmental approval conditions of both the Northern Territory Environment Protection Authority and the Australian Government and also incorporate the commitments made by Arafura in the project's Environmental Impact Statement (EIS).

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

The Company issued options to employees in July 2018. A total of 14,605,000 options were issued at an exercise price of $0.12 and vest over a period of three years, beginning on 1 July 2019. In additional to this, 4,750,000 options have been issued to Managing Director, Gavin Lockyer. These options are subject to shareholder approval at the AGM on 22 November 2018.

The Company issued 10,000,000 performance rights on 19 September 2018 at no consideration to senior staff, the management team and the managing director. The performance rights vest in three tranches according to the achievement of milestones as set by the Board. The vesting (and issue of the underlying share) of the performance rights are at the board's discretion at the time the performance hurdle is met. Of the total performance rights granted, 3,000,000 are issued to the managing director and are subject to shareholder approval at the AGM on 22 November 2018.

A 1 for 4 accelerated non-renounceable entitlement issue to institutional and retail shareholders was completed in August/September 2018 at a price of $0.08 per share. A total of $4.2m was raised, resulting in an additional 52,493,994 shares issued. This brings total shares on issue to 628,249,943.

No other matter or circumstance has arisen since 30 June 2018 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 completion of the Nolans NdPr project. In the next six months, the Company will aim to complete the rare earth processing and separation phases of the Nolans flowsheet pilot and report its DFS results by the end of the year. The Company aims to advance its NdPr offtake arrangements and engage with strategic partners for capital equipment procurement and project funding.

ENVIRONMENTAL REGULATION

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

GREENHOUSE GAS AND ENERGY DATA REPORTING REQUIREMENTS

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

DIRECTORS' REPORT (continued)

INFORMATION ON DIRECTORS

Ian Kowalick

Non-Executive Chairman

Qualifications: BSc (Hons), BEc

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

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

First Appointed

19 December 2002.

Other current Directorships

None.

Former Directorships in the last 3 years

Syngas Limited.

Central Australia Phosphate Limited.

SA Forestry Corporation.

NT Power and Water Corporation.

Medvet Science Pty Ltd.

Special Responsibilities

Chairman of the Board.

Chairman of the Remuneration and Nomination Committee.

Member of the Audit and Risk Committee.

Interests in shares and options

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

Gavin Lockyer

Managing Director and Chief Executive Officer

Qualifications: BBus, ACA, FTA

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

He joined Arafura in 2006 as Chief Financial Officer and Company Secretary after previously holding several senior finance and treasury positions in global mining companies including Newcrest and Newmont following a successful international investment banking career in Australia and London.

Gavin's diverse, global experience has provided management and leadership opportunities in a range of disciplines including; Accounting, Financial & Investment Banking, Major Resource Development & Operations, and Global Bank Treasuries. Over the past 20 years his career has exposed him to business practices in North America, Europe, and Australasia.

First Appointed

23 July 2013.

Other current Directorships

None.

Former Directorships in the last 3 years

None.

Special Responsibilities

None.

Interests in shares and options

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

727,014 ordinary shares in Arafura Resources Limited (Indirect).

INFORMATION ON DIRECTORS (CONTINUED)

Chris Tonkin

Non-Executive Director

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

Chris Tonkin has over 35 years' experience as a senior business executive with a broad industry background in business generation, management, and strategy development. He began his career as a metallurgist and environmental specialist, diversifying into commercial roles at several major industrial companies and subsequently project finance, corporate and project advisory roles at AIDC, The Chase Manhattan Bank, KPMG Corporate Finance and ANZ, where he was Head of Natural Resources Project Finance for many years, leading a very successful team of project financiers.

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

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

First Appointed

1 January 2011.

Other current Directorships

Lakes Oil N.L.

Former Directorships in the last 3 years

None.

Special Responsibilities

Member of the Audit and Risk Committee.

Member of the Remuneration and Nomination Committee.

Interests in shares and options

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

Terry Grose

Non-Executive Director

Qualifications: BEc, MBA

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

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

Terry worked in Hong Kong for over a decade, initially in a senior financial role before establishing his own business, Grose International, a commercial and financial consultancy firm with clients throughout Asia.

Since returning to Australia in 2008 he has worked as a consultant specialising in strategic planning and financial management and as a director of several companies. Terry is a Fellow of the Australian Institute of Company Directors and is currently a director of Yirra Yaakin Aboriginal Corporation, Rolltrak Spares Pty Ltd, Desert Support Services Pty Ltd and Central Desert Native Title Services Limited.

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

First Appointed

21 February 2013.

Other current Directorships

None.

Former Directorships in the last 3 years

None.

Special Responsibilities

Chairman of the Audit and Risk Committee.

Member of the Remuneration and Nomination Committee.

Interests in shares and options

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

INFORMATION ON DIRECTORS (CONTINUED)

Quansheng Zhang

Non-Executive Director

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

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

First Appointed

18 November 2016.

Other current Directorships

None.

Former Directorships in the last 3 years

None.

Special Responsibilities

None.

Interests in shares and options

None.

Mark Southey

Non-Executive Director

Qualifications: BSc (Hons) in Engineering with Business Studies, an MBA from the University of Sydney Business School and is a Member of the Australian Institute of Company Directors

Mr Southey has extensive global experience in the industrial and natural resources sectors covering all aspects of asset management, maintenance, design and engineering, and major capital project development and execution. He is well versed in public company board and institutional investor engagement and has a background in both senior operational and financial roles.

Mr Southey has previously held senior executive positions with Honeywell and ABB both in Australia and internationally, and more recently was part of the global executive leadership team within WorleyParsons, a leader in the engineering, procurement and construction of projects in the energy and resources sector where he held the position of Group Managing Director for the Minerals, Metals and Chemicals Sector. Mr Southey is also an advisory board member for Gas Cleaning Technologies LLC (Dallas).

First Appointed

30 January 2018.

Other current Directorships

None.

Former Directorships in the last 3 years

WorleyParsons, Group Managing Director for the Minerals, Metals and Chemicals Sector.

Special Responsibilities

Member of the Audit and Risk Committee (appointed 16 May 2018).

Member of the Remuneration and Nomination Committee (appointed 18 July 2018).

Interests in shares and options

None.

DIRECTORS' REPORT (continued)

INFORMATION ON DIRECTORS (CONTINUED)

Peter Sherrington

Company Secretary

Qualifications: B.Bus, CA.

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

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

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 2018 were:

	Board meetings		Committee Meetings			
Director	Full meetings of Directors held	Full meetings of Directors attended	Audit & Risk Committee meetings held	Audit & Risk Committee meetings attended	Remuneration & Nomination Committee held	Remuneration & Nomination Committee attended
Terry Grose	11	11	4	4	4	4
Ian Kowalick	11	11	4	4	4	4
Chris Tonkin	11	11	4	4	4	4
Quansheng Zhang	11	10	-	-	-	-
Mark Southey *	11	4	-	-	-	-
Gavin Lockyer	11	11	-	-	-	-

* Mark Southey was appointed on the 30th January 2018. He attended all meetings held after his appointment.

As at 30 June 2018 the Committees of Arafura are comprised of the following:

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

REMUNERATION REPORT (AUDITED)

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

Non-Executive and Executive Directors:

- Ian Kowalick
- Chris Tonkin
- Terry Grose
- Quansheng Zhang
- Gavin Lockyer – Managing Director and Chief Executive Officer
- Mark Southey [(1)]

Other Key Management Personnel

- Peter Sherrington – Chief Financial Officer and Company Secretary
- Richard Brescianini – General Manager of Exploration and Development
- Brian Fowler – General Manager of Northern Territory and Sustainability
- Lloyd Kaiser – General Manager of Sales, Marketing and Technology Development
- Stewart Watkins – General Manager of Projects [(2)]

(1) Mr Southey was appointed on the 30th January 2018.

(2) Mr Stewart Watkins was appointed on the 19th March 2018.

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 2018 financial year, all compensation arrangements for Directors and the Group's Executives were determined at Board level after taking into account the competitive rates prevailing in the market place.

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

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

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

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED) (continued)

Non-Executive Directors

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

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

	Year ended 30 June 2018	Year ended 30 June 2017
Base Fees		
Chairman	$151,200	$151,200
Other Non-Executive Directors	$78,400	$78,400
Additional Fees		
Audit & Risk Committee Member or Chairman	*	*
Remuneration & Nomination Committee Member or Chairman	*	*

- 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 2017.

The above fees are per annum and include superannuation.

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

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

Executive pay

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

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

Base pay and benefits

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

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. The Board considered prevailing market conditions and the Company's strategy going forward. 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.

Managing Director and Chief Executive Officer, Mr. Gavin Lockyer's contract remained unchanged for the 2018 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 2018, KPI's were set for the Managing Director which were not incentive linked.

REMUNERATION REPORT (AUDITED) (continued)

Long-term performance incentives

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

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

Under the Company's Option Plan approved by shareholders at the general meeting held on 18 November 2016, the Board has absolute discretion to:

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

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

No bonus payments other than as indicated in the remuneration table on page 30 were paid during the reporting period.

Other transactions with key management personnel

In the 2017 and 2018 financial year, there were no transactions with individuals at any time.

Use of remuneration consultants

The Remuneration & Nomination Committee utilised BDO Reward (WA) Pty Ltd (BDO Reward) in the year ended 30 June 2018. BDO Reward was paid $32,150 to complete a Reward Strategy and Policy Framework Project for the Company.

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 2018, no performance or incentive KPI's were set for Executives or the Managing Director and no bonuses were received. The Executives were issued with options on 31 July 2017 in line with the Company's Option Plan. Current option interests are shown on page 35.

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 2018 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 Exploration and Development
- B. Fowler – General Manager of Northern Territory & Sustainability
- L. Kaiser – General Manager of Sales, Marketing and Technology Development
- S. Watkins – General Manager of Projects

REMUNERATION REPORT (AUDITED) (continued)

Voting and comments made at the Company's 2017 Annual General Meeting

Arafura Resources Ltd received more than 65% of 'for' votes on its remuneration report for the 2017 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	
2018 Name	Cash salary and fees $	Bonus $	Non-monetary benefits $	Super-annuation $	Long service leave $	Termination benefits $	Options $	Total $
Non-Executive Directors								
I Kowalick	138,082	-	-	13,118	-	-	-	151,200
T Grose	70,000	-	-	8,400	-	-	-	78,400
C Tonkin	70,000	-	-	8,400	-	-	-	78,400
Q Zhang	78,400	-	-	-	-	-	-	78,400
M Southey[(1)]	30,383	-	-	2,886	-	-	-	33,269
Executive Directors								
G Lockyer	401,100	-	2,426	25,000	(7,377)	-	2,334	423,483
Other key management personnel (Group)								
P Sherrington	315,717	-	2,426	25,000	5,686	-	2,855	351,684
R Brescianini	276,100	-	2,426	25,000	(1,472)	-	2,855	304,909
B Fowler	257,100	-	-	25,000	1,738	-	2,855	286,693
L Kaiser	261,986	-	2,426	24,889	11,209	-	1,428	301,938
S Watkins[(2)]	72,445	-	-	6,882	1,293	-	-	80,620
Total	**1,971,313**	**-**	**9,704**	**164,575**	**11,077**	**0**	**12,327**	**2,168,996**

(1) Mr Southey was appointed on the 30th January 2018.

(2) Mr Stewart Watkins was appointed on the 19th March 2018.

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

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

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

REMUNERATION REPORT (AUDITED) (continued)

C Service agreements

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

Remuneration and other terms of employment for the Managing Director and other key management personnel are also formalised in service agreements. Each of these agreements provide for the provision of performance-related cash bonuses and other benefits including, parking and participation where eligible in the Arafura Share Option Plan. Other major provisions of the agreements relating to remuneration are set out below for the 2018 financial year:

G Lockyer, Managing Director

- No term of agreement.
- Base salary inclusive of superannuation, for the year ended 30 June 2018 of $426,100.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to six months of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to six months of the base salary.

P Sherrington, Chief Financial Officer and Company Secretary

- No term of agreement.
- Base salary inclusive of superannuation, for the year ended 30 June 2018 of $341,100.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to three months of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to three months of the base salary.

R Brescianini, General Manager Strategic Development and Exploration

- No term of agreement.
- Base salary inclusive of superannuation, for the year ended 30 June 2018 of $301,100.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to three months of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to six months of the base salary.

B Fowler, General Manager of Northern Territory and Sustainability.

- No term of agreement.
- Base salary inclusive of superannuation for the year ended 30 June 2018 of $282,100.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to three months of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to three months of the base salary.

L Kaiser, General Manager of Sales, Marketing and Technology Development

- No term of agreement.
- Base salary inclusive of superannuation for the year ended 30 June 2018 of $286,875.
- 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.

S Watkins, General Manager of Projects

- No term of agreement.
- Base salary inclusive of superannuation for the year ended 30 June 2018 of $275,000.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to one month of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to one month of the base salary.

REMUNERATION REPORT (AUDITED) (continued)

D Share-based compensation

Employee share scheme

Options over shares in Arafura Resources Limited are granted by the Board under the Arafura Resources Limited Share Option Plan which was last approved by shareholders at the 2016 annual general meeting and will be up for consideration again in 2019.

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

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

Grant date	Date vested and exercisable	Expiry date	Exercise price	Model option value	% Vested
18-Jul-13	18-Jul-14	18-Jul-16	$0.140	$0.040	100%
30-Sep-14	30-Sep-15	30-Sep-18	$0.105	$0.018	100%
30-Sep-14	30-Sep-16	30-Sep-18	$0.105	$0.022	100%
30-Sep-14	30-Sep-17	30-Sep-18	$0.105	$0.025	0%
20-Nov-14	20-Nov-15	20-Nov-18	$0.105	$0.016	100%
20-Nov-14	20-Nov-16	20-Nov-18	$0.105	$0.017	100%
20-Nov-14	20-Nov-17	20-Nov-18	$0.105	$0.018	0%
31-Jul-17	01-Jul-18	30-Jun-21	$0.15	$0.016	0%
31-Jul-17	01-Jul-19	30-Jun-21	$0.15	$0.020	0%
31-Jul-17	01-Jul-20	30-Jun-21	$0.15	$0.023	0%

During the year ended 30 June 2018, 2,055,000 options were granted to various employees, including key management personnel in 3 tranches. The company has internally measured the fair value of the options granted by adopting a Black-Scholes pricing model. The key inputs for the model are tabled below:

Black-Scholes Pricing Model			
Tranche	**1**	**2**	**3**
Grant Date	31/07/2017	31/07/2017	31/07/2017
Date of Expiry	30/06/2021	30/06/2021	30/06/2021
Vesting trigger date	31/07/2018	31/07/2019	31/07/2020
Exercise Price	$0.15	$0.15	$0.15
Share Price (at issue date)	$0.07	$0.07	$0.07
Risk free interest rate	1.85%	1.94%	2.00%
Volatility	72.43%	74.33%	74.57%
Years to Expiry	2.42 years	2.92 years	3.42 years
Number of Rights Granted	685,000	685,000	685,000
Fair Value Per Right	$0.016	$0.02	$0.023
Total Fair Value	$10,960	$13,700	$15,755

On the 31 July 2018, the Board approved the issue of 14,605,000 options to staff and 4,750,000 options to the Managing Director (subject to shareholder approval at the Annual General Meeting on 22 November 2018). The options vest in three equal tranches, beginning 1 July 2019.

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.

REMUNERATION REPORT (AUDITED) (continued)

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

Name	Number of options granted during the year	Value of options at grant date $	Number of options vested during the year	Number of options lapsed during the year	Value of lapsed options $	Year lapsed options were granted
Directors of Arafura Resources Limited						
I J Kowalick	-	-	-	-	-	-
T Grose	-	-	-	-	-	-
C Tonkin	-	-	-	-	-	-
Q Zhang	-	-	-	-	-	-
G Lockyer	-	-	-	-	-	-
M Southey	-	-	-	-	-	-
Other key management personnel of the group						
P Sherrington	300,000	5,900	-	-	-	-
R Brescianini	300,000	5,900	-	-	-	-
B Fowler	300,000	5,900	-	-	-	-
L Kaiser	300,000	5,900	-	-	-	-
S Watkins	-	-	-	-	-	-

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 2018 financial year, nor were any shares (performance or otherwise) given to any individual as part of their remuneration package.

None of the Directors of Arafura Resources Limited are eligible to participate in the Company's employee share option scheme without prior shareholder approval.

Performance rights

Performance rights in Arafura Resources Limited are granted by the Board under the Arafura Resources Limited Performance Rights Plan which was last approved by shareholders at the 2016 annual general meeting and will be up for consideration again in 2020.

Performance rights are issued for no consideration and vest according to a set of performance criteria being met. The vesting of the performance rights is determined at the board's discretion.

On 19 September 2018 the Board approved a total of 10,000,000 performance rights to be offered to senior staff, senior management and the managing director. The managing director will be eligible for up to 3,000,000 performance rights (subject to shareholder approval at the Annual General Meeting on 22 November 2018). Subject to acceptance of the performance rights, these will be will be issued in three tranches and will vest upon the successful completion of set performance hurdles being:

1. Tranche 1- completion of the DFS within 25% or better of US$680m Capex and $35/kg NdPr Opex (excluding Phosphate credit) for the Company's Nolans NdPr Project
2. Tranche 2- Grant of the Mining Lease from the Northern Territory Department of Primary Industry and Resources in relation to the Nolans NdPr Project
3. Tranche 3- Project funding secured on term acceptable to the Board to enable project investment decision

The board has ultimate discretion on whether the performance hurdles have been met. Once vested, the performance rights will not be exercisable until an eligible service period of 24 months from the date of the milestone being achieved has been met. Each Tranche of performance rights will (if not vested) lapse four years after the issue of those performance rights.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (AUDITED) (continued)

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 2018.

Other transactions with key management personnel

In the 2017 and 2018 financial year, there were no transactions with individuals at any time.

Movements in option interests of Key Management Personnel for 30 June 2018

2018	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of year	Vested and exercisable	Unvested
Directors of Arafura Resources Limited							
I J Kowalick	-	-	-	-	-	-	-
T Grose	-	-	-	-	-	-	-
C Tonkin	-	-	-	-	-	-	-
Q Zhang	-	-	-	-	-	-	-
G Lockyer	3,000,000	-	-	-	3,000,000	3,000,000	-
M Southey	-	-	-	-	-	-	-
Key management personnel of the Group							
P Sherrington	600,000	300,000	-	-	900,000	600,000	300,000
R Brescianini	600,000	300,000	-	-	900,000	600,000	300,000
B Fowler	600,000	300,000	-	-	900,000	600,000	300,000
L Kaiser	300,000	300,000	-	-	600,000	300,000	300,000
S Watkins	-	-	-	-	-	-	-
Total	**5,100,000**	**1,200,000**	**-**	**-**	**6,300,000**	**5,100,000**	**1,200,000**

Movements in share interests of Key Management Personnel for 30 June 2018

2018	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year (on market trades)	Balance at the end of the year
Directors of Arafura Resources Limited				
I J Kowalick	577,007	-	-	577,007
T Grose	103,334	-	-	103,334
C Tonkin	100,000	-	-	100,000
Q Zhang	-	-	-	-
G Lockyer	584,014	-	143,000	727,014
M Southey	-	-	-	-
Key management personnel of the Group				
P Sherrington	135,000	-	93,000	228,000
R Brescianini	85,054	-	-	85,054
B Fowler	-	-	-	-
L Kaiser	-	-	-	-
S Watkins	-	-	-	-
Total	**1,584,409**	**-**	**236,000**	**1,820,409**

This is the end of the audited remuneration report.

DIRECTORS' REPORT (continued)

Insurance of officers

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

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

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

Proceedings on behalf of the Company

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

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

Non-audit services

Non-audit services totalling $32,150 were provided by BDO in the 2018 financial year as a result of the Board engaging BDO Reward (WA) Pty Ltd to prepare a Reward Strategy and Policy Framework and a Board and Executive Remuneration review.

The Directors are satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the Corporations Act 2001 nor the principles set out in APES110 Code of Ethics for Professional Accountants.

As a result, the Board is satisfied that the auditor is compatible with, and did not compromise, the auditor's independence requirements of the Corporations Act 2001.

Details of the provision of audit services by BDO Audit (WA) Pty Ltd and its related entity BDO Reward (WA) Pty Ltd, can be found at note 19 of this financial report.

AUDITOR'S INDEPENDENCE DECLARATION

FOR THE YEAR ENDED 30 JUNE 2018

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 40.

Signed in accordance with a resolution of the Directors.

Gavin Lockyer,
Managing Director

Ian Kowalick,
Chairman

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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 2018, 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 year.

Jarrad Prue, Director

BDO Audit (WA) Pty Ltd
Perth, 19 September 2018

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2018

OUR APPROACH TO CORPORATE GOVERNANCE

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

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

Charters

Board

Audit and Risk Committee

Nomination and Remuneration Committee

Policies and Procedures

Process for Performance Evaluations

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

Director and Senior Executive Induction Program

Diversity Policy (summary)

Code of Conduct (summary)

Policy on Continuous Disclosure (summary)

Compliance Procedures (summary)

Shareholder Communication and Investor Relations Policy

Securities Trading Policy

Whistleblower Policy

The Company reports below on whether it has followed each of the recommendations during the 2017/2018 financial year (Reporting Period).

The information in this statement is current at 19 September 2018. This statement was approved by a resolution of the Board on 19 September 2018.

Principle 1 – Lay solid foundations for management and oversight

Recommendation 1.1

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

Recommendation 1.2

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

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

CORPORATE GOVERNANCE STATEMENT (continued)

FOR THE YEAR ENDED 30 JUNE 2018

Recommendation 1.3

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

Recommendation 1.4

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

Recommendation 1.5

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

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

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

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

	Proportion of women
Whole organisation	5 out of 22 (23%)
Senior executive positions (excluding the Managing Director)	0 out of 5 (0%)
Board	0 out of 6 (0%)

Recommendation 1.6

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

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

During the Reporting Period each director, including the Managing Director, completed a questionnaire in accordance with the documented process. The results of this were summarised and discussed with the Board at the June Board Meeting.

The Nomination and Remuneration Committee conducted its evaluation of the Managing Director in June 2018. The evaluation consisted of performance and leadership competencies. It also considered such things as market sentiment and industry activity. KPI's were reviewed in the 2017/18 Reporting Period and are reviewed regularly.

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.

An evaluation of senior executives is completed on a bi-annual basis. 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.

CORPORATE GOVERNANCE STATEMENT (continued)

FOR THE YEAR ENDED 30 JUNE 2018

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, Chris Tonkin and Mark Southey (appointed 18 July 2018). 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 24 of the Company's 2018 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 18.

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

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

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

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

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

CORPORATE GOVERNANCE STATEMENT (continued)

FOR THE YEAR ENDED 30 JUNE 2018

The current skills and experience mix of the six current directors is summarised in the following table (full director biographies are shown on pages 18-23).

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.	6
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.	6
International Experience	Directors that have worked on projects in regions and countries where Arafura is currently looking to find investment or operate or have a reasonable understanding of same.	4
Technology & Innovation	Professional qualifications/experience in the research development and implementation of minerals processing technologies, Chemical Engineering, Geology, Mining & Rare Earths industry	4
Project Engineering Construction & execution	Practical experience with engineering design and project execution in an executive or senior manager capacity.	4
Project Management	Individuals that carry relevant experience in project manager or executive director roles across large scale projects	4

Recommendation 2.3

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

The status of Directors independence was discussed and determined on the 16 May 2018 Board Meeting. As a result, it was determined that the independent directors of the Company are Ian Kowalick, Terry Grose, Mark Southey and Chris Tonkin.

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

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

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

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

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

It should be noted that since Mr Tonkin's appointment in 2011, he acted as interim CEO and Managing Director to guide the Company through a transitionary period in 2012/13. Mr Tonkin's role as CEO and Managing Director subsequently ceased on 17 July 2013 (approximately 5 years ago) as Mr Lockyer took this position.

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

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

CORPORATE GOVERNANCE STATEMENT (continued)

FOR THE YEAR ENDED 30 JUNE 2018

Mr Southey 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.

The length of service of each director is set out in the Directors' Report on pages 18-23 of the Company's 2018 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, Chris Tonkin and Mark Southey (appointed 16 May 2018). 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 18-23 of the Company's 2018 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 24 of the Company's 2018 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 2017 and the full-year ended 30 June 2018 and each of the quarters ending 30 September 2017, 31 December 2017, 31 March 2018 and 30 June 2018, 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 16 November 2017.

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.

CORPORATE GOVERNANCE STATEMENT (continued)

FOR THE YEAR ENDED 30 JUNE 2018

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

Recommendation 7.3

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

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

Recommendation 7.4

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

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

Principle 8 – Remunerate fairly and responsibly

Recommendation 8.1

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

Recommendation 8.2

Details of remuneration, including the Company's policy on remuneration, are contained in the 'Remuneration Report' which forms of part of the Directors' Report and commences at page 25 of the Company's 2018 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 & OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 $	2017 $
Revenue from continuing operations	4	247,629	276,439
Non-capitalised portion of R&D tax incentive rebate	4	659,567	847,253
Foreign exchange gain/(loss)	4	(491)	(780)
Employee benefits expense	5	(2,183,060)	(2,247,341)
Other expenses	5	(2,515,848)	(2,210,497)
Depreciation and amortisation	5	(63,024)	(46,715)
Finance costs	5	(4,692)	(4,877)
Share Based Payments	5	(24,800)	(21,313)
Impairment of assets	5	(1,230,693)	(5,501)
Loss before income tax		**(5,115,412)**	**(3,413,332)**
Net (Loss) after income tax for the year		**(5,115,412)**	**(3,413,332)**
Total comprehensive (loss) for the year attributable to owners of Arafura Resources Limited		**(5,115,412)**	**(3,413,332)**
Loss per share attributable to owners of Arafura Resources Limited			
Basic loss per share	21	(0.9)	(0.7)
Diluted loss per share	21	(0.9)	(0.7)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 $	2017 $
CURRENT ASSETS			
Cash and cash equivalents	7	7,874,096	12,471,662
Trade and other receivables	8	209,704	288,752
Total Current Assets		**8,083,800**	**12,760,414**
NON-CURRENT ASSETS			
Property, plant and equipment	9	483,621	138,929
Deferred exploration, evaluation and development costs	10	93,158,071	89,751,800
Other assets	11	231,378	240,795
Total Non-Current Assets		**93,873,070**	**90,131,524**
TOTAL ASSETS		**101,956,870**	**102,891,938**
CURRENT LIABILITIES			
Trade and other payables	12	1,772,179	786,841
Provisions	13	383,055	208,924
Total Current Liabilities		**2,155,234**	**995,765**
NON-CURRENT LIABILITIES			
Provisions	13	350,995	331,324
Total Non-Current Liabilities		**350,995**	**331,324**
TOTAL LIABILITIES		**2,506,229**	**1,327,089**
NET ASSETS		**99,450,641**	**101,564,849**
EQUITY			
Contributed equity	14	203,567,241	200,590,837
Reserves	15	11,675,463	11,650,663
Accumulated losses	16	(115,792,063)	(110,676,651)
TOTAL EQUITY		**99,450,641**	**101,564,849**

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 2018

Consolidated	Notes	Contributed equity $	Equity reserve $	Accumulated losses $	Total equity $
Balance at 30 June 2016		**194,128,196**	**11,629,350**	**(107,263,319)**	**98,494,227**
Loss for the 2017 financial year	16	-	-	(3,413,332)	(3,413,332)
Other comprehensive income		-	-	-	-
Total Comprehensive loss for the year		**-**	**-**	**(3,413,332)**	**(3,413,332)**
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs and tax	14	6,462,641	-	-	6,462,641
Employee share options – value of employee services	15	-	21,313	-	21,313
Balance at 30 June 2017		**200,590,837**	**11,650,663**	**(110,676,651)**	**101,564,849**
Loss for the 2018 financial year	16	-	-	(5,115,412)	(5,115,412)
Other comprehensive income		-	-	-	-
Total Comprehensive loss for the year		**-**	**-**	**(5,115,412)**	**(5,115,412)**
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs and tax	14	2,976,404	-	-	2,976,404
Employee share options – value of employee services	15	-	24,800	-	24,800
Balance at 30 June 2018		**203,567,241**	**11,675,463**	**(115,792,063)**	**99,450,641**

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 2018

	Notes	Consolidated 30 June 2018 $	Consolidated 30 June 2017 $
Cash flows from operating activities			
Payments to suppliers and employees		(4,450,030)	(4,455,853)
Interest received		265,164	280,770
R&D Incentive rebate - non capitalised portion		659,567	847,253
Interest paid		(4,692)	(4,877)
Net cash (outflow) from operating activities	17	**(3,529,991)**	**(3,332,707)**
Cash flows from investing activities			
Payment for property, plant and equipment		(407,718)	(55,396)
Proceeds from sale of tenements		9,928	313,250
Payments for exploration and evaluation		(4,819,684)	(3,364,107)
R&D Incentive rebate - capitalised portion		1,173,986	905,760
Other		-	-
Net cash (outflow) from investing activities		**(4,043,488)**	**(2,200,493)**
Cash flows from financing activities			
Net proceeds from issue of shares		3,174,550	6,764,740
Payments for transaction costs		(198,146)	(302,099)
Net cash inflow from financing activities		**2,976,404**	**6,462,641**
Net increase/(decrease) in cash and cash equivalents		**(4,597,075)**	**929,441**
Cash at the beginning of the financial year		12,471,662	11,543,001
Effects of exchange rate changes on cash and cash equivalents		(491)	(780)
Cash and cash equivalents at the end of the financial year		**7,874,096**	**12,471,662**

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

INDEX TO THE NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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 2017.

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 2018 and the results of all controlled entities for the year then ended. Arafura Resources Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

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

(ii) Joint arrangements

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

Joint Operations

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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.

(g) 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.

(h) 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.

(i) Employee benefits

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

Share-based compensation benefits are provided to employees via the Arafura Resources Limited Employee Share Option Plan. Employee benefits received under this plan are accounted for as an option under AASB2: Share-based Payments. Information in relation to the scheme is set out in note 26.

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.

(k) 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.

(l) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

(m) Accounting Standards Issued Not Yet Effective

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2018 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.

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

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

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

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

Impact on initial application:
The impact has been assessed as immaterial to Arafura.

ii) AASB 16 (issued January 2016) – Leases

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

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

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

Impact on initial application:
The Company has not yet made an assessment of the impact of this standard; however it is noted it will be taken into consideration for banking covenants and other reporting metrics required once the Company secures its funding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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:

	2018 $	2017 $
Financial assets		
Cash and cash equivalents	7,874,096	12,471,662
Trade and other receivables	209,704	288,752
	8,083,800	**12,760,414**
Financial liabilities		
Trade creditors	1,075,877	493,609
Trade and other accruals	680,526	292,842
PAYG and payroll tax liabilities	15,776	390
	1,772,179	**786,841**

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from contract exposure in relation to the provisions of goods and services by outside organisations. The exposure is limited to the value of a USD bank balance, being USD$3,463.

(ii) Price risk

The Group was not exposed to equity securities price risk. This typically arises from investments held by the Group and classified on the statement of financial position as available-for-sale financial assets. At 30 June 2018, Arafura had no such investments.

(iii) Cash flow and fair value interest rate risk

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

(b) Credit risk

The Group has no significant concentrations of credit risk.

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

	2018 $	2017 $
Cash at bank and short-term bank deposits		
Standard & Poor's rating AA-	**7,874,096**	12,471,662

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

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 2018	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	1,772,179	-	-	-	-	1,772,179	1,772,179
Fixed rate	-	-	-	-	-	-	-
Total non-derivatives	**1,772,179**	**-**	**-**	**-**	**-**	**1,772,179**	**1,772,179**

Group – At 30 June 2017	Less than 6 months $	6 – 12 months $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Total contractual cash flows $	Carrying amounts of (assets)/liabilities $
Non-derivatives							
Non-interest bearing	786,841	-	-	-	-	786,841	786,841
Fixed rate	-	-	-	-	-	-	-
Total non-derivatives	786,841	-	-	-	-	786,841	786,841

NOTE 3: CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

(a) Critical accounting estimates and assumptions

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

(i) Continued recognition of Exploration and evaluation expenditure

Details of the Group's policy regarding the capitalisation of mining, evaluation and development expenditure are found in note 10.

(ii) Income taxes

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

Under the Industry Research and Development Act 1986, for the income year 2016/17 Arafura Resources Limited has received Notice of Registration for the R&D Tax Incentive.

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

The Group is currently in the process of claiming for expenditure on the eligible registered R&D activities for the 2018 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 2017 and 2018 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 10.

NOTE 4: REVENUE

Accounting Standard

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).

Goods and Services Tax
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.

	2018 $	2017 $
Revenue from continuing operations		
Other revenue		
Interest received	**247,629**	276,439
	247,629	276,439
Other revenue		
Foreign exchange gain/(loss)	**(491)**	(780)
Non-capitalised portion of R&D Tax Incentive rebate	**659,567**	847,253
	659,076	846,473
Total Revenue	**906,705**	1,122,912

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 5: EXPENSES

	2018 $	2017 $
(a) Expenses		
Depreciation		
Depreciation – plant & equipment	**49,082**	29,766
Depreciation – leasehold improvements	**13,942**	16,949
Total depreciation	**63,024**	46,715
Finance costs		
Interest expense	**4,692**	4,877
Total finance costs	**4,692**	4,877
Other expenses		
Accounting and other professional fees	**59,965**	80,135
Audit fees	**58,035**	57,426
Consultants fees	**757,946**	492,035
Employee benefits expense	**2,183,060**	2,247,341
Insurance	**80,985**	74,110
Legal fees	**237,042**	228,757
Share-based employee benefits	**24,800**	21,313
Share registry and stock listing fees	**82,753**	74,603
Other expenses	**1,239,122**	1,203,431
Total other expenses	**4,723,708**	4,479,151
Impairment of assets		
Capitalised exploration expenditure	**1,230,693**	5,501
Total impairment of assets	**1,230,693**	5,501

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 6: INCOME TAX

Accounting Standard

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

	2018 $	2017 $
Income tax expense		
Current tax	**-**	-
Loss before income tax	**5,115,412**	3,413,332
Income tax/ (benefit) @ 30%	**1,534,624**	1,024,000
Tax effect of amounts which are not deductible in calculating taxable income:		
• Entertainment	**(3,018)**	(5,930)
• Share-based payments	**(7,439)**	(6,394)
• Sundry items not deductible (assessable)	**197,723**	254,176
• Deferred tax assets relating to tax losses and temporary differences not recognised	**(2,904,157)**	(2,354,558)
• Temporary differences not recognised	**1,182,267**	1,088,942
• Research and Development refundable offset	**-**	-
Total income tax benefit	**-**	-
The franking account balance at year end was $nil (2017 $nil)		

	2018 $	2017 $
Deferred tax assets and liabilities not recognised relate to the following:		
Deferred tax assets		
Tax losses	**55,535,174**	53,085,893
Other temporary differences	**558,780**	307,528
Total deferred tax assets	**56,093,954**	53,393,421
Deferred tax liabilities	**(27,947,421)**	(26,925,543)
Net Deferred tax assets	**28,146,533**	26,467,878

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 7: CURRENT ASSETS – CASH AND CASH EQUIVALENTS

Accounting Standard

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.

	2018 $	2017 $
Cash at bank and in hand	**1,224,096**	1,321,662
Bank deposits	**6,650,000**	11,150,000
	7,874,096	12,471,662

(1) All bank deposits mature within three months of 30 June 2018

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

	2018 $	2017 $
Reconciliation to cash at the end of the year		
Balances as above	**7,874,096**	12,471,662
Balances as per statements of cash flows	**7,874,096**	12,471,662

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

NOTE 8: TRADE AND OTHER RECEIVABLES

Accounting Standard

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

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

Accounting Standard

(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.

Consolidated	Office furniture and fittings $	Office and computer equipment $	Plant and equipment $	Motor vehicles $	Land, Buildings and leasehold additions $	Total $
Year Ended 30 June 2017						
Opening book amount	14,490	20,454	2,098	-	93,206	130,248
Additions	-	55,396	-	-	-	55,396
Depreciation charge	(5,180)	(22,910)	(1,676)	-	(16,949)	(46,715)
Closing book amount	9,310	52,940	422	-	76,257	138,929
At 30 June 2017						
Cost or fair value	82,823	735,156	99,916	203,308	169,488	1,290,691
Accumulated depreciation	(73,513)	(682,216)	(99,494)	(203,308)	(93,231)	(1,151,762)
Net book amount	9,310	52,940	422	-	76,257	138,929
Year ended 30 June 2018						
Opening book amount	9,310	52,940	422	-	76,257	138,929
Additions	11,808	28,637	367,271	-	-	407,716
Depreciation charge	(2,770)	(30,998)	(15,314)	-	(13,942)	(63,024)
Closing book amount	18,348	50,579	352,379	-	62,315	483,621
At 30 June 2018						
Cost or fair value	94,631	763,793	467,187	203,308	169,488	1,698,407
Accumulated depreciation	(76,283)	(713,214)	(114,808)	(203,308)	(107,173)	(1,214,786)
Net book amount	18,348	50,579	352,379	-	62,315	483,621

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

Accounting Standard

(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.

	2018 $	2017 $
Exploration, evaluation and development costs carried forward		
Balance at beginning of year	**89,751,800**	87,308,434
Capitalised exploration expenditure	**2,131,216**	363,067
Capitalised evaluation expenditure (a)	**3,679,734**	2,991,560
Impairment of exploration expenditure (b)	**(1,230,693)**	(5,501)
R&D Tax Incentive rebate receipted against capitalised evaluation costs	**(1,173,986)**	(905,760)
Balance at end of year	**93,158,071**	89,751,800

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

(b) A review of tenements as well as the dealings with Rox Resources has resulted in an impairment on the Bonya (Jervois) tenement of $1,223,500 at 30 June 2018. With Rox divesting its 11% interest in certain minerals to Arafura in exchange for an overall 40% interest in all minerals held on the Bonya (Jervois) tenement and the subsequent conditional sale of Rox's interest to Thor, this has created a market transaction that provides a reference point for valuing Arafura's interest in Jervois. The carrying amount for this asset was previously the accrued development costs. The impairment charge now brings the carrying amount back in line with the previously referenced arm's length transactions.

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

NOTE 11: NON-CURRENT ASSETS – OTHER ASSETS

	2018 $	2017 $
Lease Bonds	**231,378**	240,795

Accounting Standard

(a) Investments and other financial assets

The Group classifies its investments in the following categories: financial assets at fair value through the profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired.

(i) Loans and receivables

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

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

(b) 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.

NOTE 12: CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

Accounting Standard

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.

	2018 $	2017 $
Current		
Trade creditors [(a)]	**1,075,877**	493,609
Trade and other accruals	**680,526**	292,842
PAYG and payroll tax liabilities	**15,776**	390
	1,772,179	786,841

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 13: CURRENT AND NON-CURRENT LIABILITIES – PROVISIONS

	2018 $	2017 $
Current		
Annual and long service leave	**383,055**	208,924
Non-current		
Long service leave	**350,995**	331,324

Accounting Standard

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.

NOTE 14: EQUITY – CONTRIBUTED EQUITY

Accounting Standard

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.

	2018 $	2017 $	2018 $	2017 $
Share capital				
Ordinary shares				
• Fully paid	**575,755,949**	546,896,402	**203,567,241**	200,590,837

(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-16	**Balance**	**441,270,644**	**-**	**194,128,196**
23/02/2017	Private Placement	53,100,588	0.068	3,610,840
27/02/2017	Private Placement	300,000	0.068	20,400
4/04/2017	Share Purchase Plan	52,225,170	0.060	3,133,500
-	Capital Raising Costs	-	-	(302,099)
30-Jun-17	**Balance**	**546,896,402**	**-**	**200,590,837**
27/10/2017	Fully Paid Ordinary Shares	20,344,092	0.11	2,237,850
30/10/2017	Fully Paid Ordinary Shares	4,879,091	0.11	536,700
1/11/2017	Fully Paid Ordinary Shares	3,636,364	0.11	400,000
-	Capital Raising Costs	-	-	(198,146)
30-Jun-18	**Balance**	**575,755,949**		**203,567,241**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

(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 15: EQUITY – RESERVES

Accounting Standard

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

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

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

	2018 $	2017 $
Reserves		
Share-based payments reserve	**11,675,463**	11,650,663
	11,675,463	11,650,663
Movements		
Share-based payments reserve		
Balance 1 July 2017	**11,650,663**	11,629,350
Option expense	**24,800**	21,313
Balance 30 June 2018	**11,675,463**	11,650,663

(a) Nature and purpose of reserves

(i) Share-based payments reserve

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 16: EQUITY – ACCUMULATED LOSSES

	2018 $	2017 $
Balance 1 July 2017	**(110,676,651)**	(107,263,319)
Net loss for the year	**(5,115,412)**	(3,413,332)
Balance 30 June 2018	**(115,792,063)**	(110,676,651)

NOTE 17: STATEMENT OF CASH FLOWS RECONCILIATION

	2018 $	2017 $
Net (loss)	**(5,115,412)**	(3,413,332)
Depreciation and amortisation	**63,024**	46,715
Impairment on assets	**1,230,693**	5,501
Loss on tenements	**-**	-
Unrealised FX loss/(gain)	**491**	780
Share-based employee benefits	**24,800**	21,313
(Increase)/decrease in trade & other receivables	**78,530**	(18,325)
Increase/(decrease) in trade & other payables	**153,560**	38,750
Increase/(decrease) in other provisions	**34,323**	(14,109)
Net cash (outflow) from operating activities	**(3,529,991)**	(3,332,707)

NOTE 18: KEY MANAGEMENT PERSONNEL COMPENSATION

(a) Key management personnel compensation

	2018 $	2017 $
Short-term employee benefits	**1,981,017**	1,571,705
Post-employment benefits	**164,575**	171,902
Long-term benefits	**11,077**	23,164
Termination benefits	**-**	-
Share-based payments	**12,327**	15,952
	2,168,996	1,782,723

Detailed remuneration disclosures are provided in sections A-E of the remuneration report on pages 25 to 37.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

(a) Equity instrument disclosures relating to key management personnel

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

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the Remuneration report and Note 26.

(ii) Loans to key management personnel

In the 2017 and 2018 financial year, there were no loans to individuals at any time.

(iii) Other transactions with key management personnel

In the 2017 and 2018 financial year, there were no transactions with individuals at any time.

NOTE 19: REMUNERATION OF AUDITORS

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

	2018 $	2017 $
1. Audit services		
BDO Audit (WA) Pty Ltd		
Audit and review of financial reports	**58,035**	57,426
Total remuneration for audit services	**58,035**	57,426
2. Non-Audit services		
BDO Reward (WA) Pty Ltd		
Board and Executive remuneration and Reward Strategy and Policy Framework review	**32,150**	-
Total remuneration for non-audit services	**32,150**	-

NOTE 20: 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:

	2018 $	2017 $
Within one year	**320,050**	314,924
Later than one year but not later than five years	**194,932**	314,837
Later than five years	**-**	-
	514,982	629,761
(c) Mining tenement commitments		
Within one year	221,592	296,100
Later than one year but not later than five years	223,222	1,450,869
	444,814	1,746,969

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

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

(d) Contingencies

No contingent liabilities exist at reporting date.

NOTE 21: EARNINGS PER SHARE

Accounting Standard

(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.

	2018 Cents	2017 Cents
Basic loss per share Basic loss per share (cents per share)	**(0.9)**	(0.7)
Diluted loss per share Diluted loss per share (cents per share)	**(0.9)**	(0.7)
Net Earnings/(loss)	**(5,115,412)**	(3,413,332)
Earnings/(loss) used to calculate basic earnings per share	**(5,115,412)**	(3,413,332)
Earnings/(loss) used to calculate diluted earnings per share	**(5,115,412)**	(3,413,332)

	2018 Number of shares	2017 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	**566,257,031**	472,296,026
Weighted average number of ordinary shares used in calculating diluted earnings per share	**566,257,031**	472,296,026
Weighted average number of ordinary shares from option conversions which are dilutive and potential ordinary shares that are not used in calculation of diluted earnings per share	**-**	-

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 22: RELATED PARTY TRANSACTIONS

(a) Parent entity

The parent entity within the Group is Arafura Resources Limited. The ultimate Australian parent entity is Arafura Resources Limited which at 30 June 2018 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 2018 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 23.

(c) Key management personnel

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

(d) Transactions with related parties

There were no transactions with related parties in the year ended 30 June 2018.

(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 23: SUBSIDIARIES

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

Name of entity	Country of incorporation	Class of share	Equity holding	
			2018 %	2017 %
Arafura Rare Earths Pty Ltd	Australia	Ordinary	**100**	100
Arafura Uranium Pty Ltd	Australia	Ordinary	**100**	100
Arafura Iron Pty Ltd	Australia	Ordinary	**100**	100
Arafura Rare Earths Processing Pty Ltd	Australia	Ordinary	**100**	100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 24: INTERESTS IN JOINT VENTURES

On 19 March 2018, the Company restructured its joint venture arrangements with Rox Resources Ltd (Rox) on EL 29701 (Bonya, previously known as Jervois). This saw a divestment of 11% of Rox's interest (previously 51%) to 40% and resulted in the Company transferring 40% of its interest in the all minerals to Rox. Subsequent to this on 19 April 2018, Thor Mining Plc (Thor) agreed to acquire Rox's 40% interest in Bonya. Transfer is still pending as at 30 June 2018.

NOTE 25: EVENTS OCCURRING AFTER THE REPORTING DATE

The Company issued options to employees in July 2018. A total of 14,605,000 options were issued at an exercise price of $0.12 and vest over a period of three years, beginning on 1 July 2019. In addition to this, 4,750,000 options have been issued to Managing Director, Gavin Lockyer. These options are subject to shareholder approval at the AGM on 22 November 2018.

The Company issued 10,000,000 performance rights on 19 September 2018 at no consideration to senior staff, the management team and the managing director. The performance rights vest in three tranches according to the achievement of milestones as set by the Board. The vesting (and issue of the underlying share) of the performance rights are at the board's discretion at the time the performance hurdle is met. Of the total performance rights granted, 3,000,000 are issued to the managing director and are subject to shareholder approval at the AGM on 22 November 2018.

A 1 for 4 accelerated non-renounceable entitlement issue to institutional and retail shareholders was completed in August/September 2018 at a price of $0.08 per share. A total of $4.2m was raised, resulting in an additional 52,493,994 shares issued. This brings total shares on issue to 628,249,943.

No other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect:

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 26: SHARE-BASED PAYMENTS

Employee option plan

The establishment of the Arafura Resources Limited Employee Share Option Plan (ESOP) was approved by shareholders at the 2016 AGM. The options are issued for nil consideration and are granted at the discretion of the Board.

The options cannot be transferred, are not quoted on the Australian Stock Exchange (ASX) and carry no dividend or voting rights. The exercise price is based on the weighted average price at which the Company's shares are traded on the ASX during a specified period immediately before the options are granted. Unless otherwise indicated, options become exercisable one year after the grant date and generally expire within 3 to 5 years after the grant date.

Once able to be exercised, options are exercisable at any time whilst the holder is employed by Arafura Resources Limited. When exercisable, each option is convertible into one ordinary share.

Options may also be issued outside of the ESOP. These options are offered at the Directors' discretion to prospective employees as an incentive to commence employment with Arafura Resources Limited.

Set out below are summaries of options granted and still outstanding at the beginning and/or end of the financial year:

Grant date	Expiry date	Exercise price	Balance at start of year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of year Number	Vested and exercisable at end of year Number
Consolidated – 2018								
30-Sep-14	30-Sep-18	$0.105	3,300,000	0	-	(150,000)	3,150,000	3,150,000
20-Nov-14	20-Nov-18	$0.105	3,000,000	-	-	0	3,000,000	3,000,000
31-Jul-17	30-Jun-21	$0.150	-	2,055,000	0	(90,000)	1,965,000	0
Total			6,300,000	2,055,000	0	(240,000)	8,115,000	6,150,000
Weighted average exercise price			$0.11	-	$0.00	$0.11	$0.11	$0.11
Consolidated – 2017								
18-Jul-13	18-Jul-16	$0.140	5,650,000	-	-	(5,650,000)	-	-
30-Sep-14	30-Sep-18	$0.105	3,345,000	-	-	(45,000)	3,300,000	2,200,000
20-Nov-14	20-Nov-18	$0.105	3,000,000	-	-	-	3,000,000	2,000,000
Total			11,995,000	-	-	(5,695,000)	6,300,000	4,200,000
Weighted average exercise price			$0.12	-	-	$0.14	$0.11	$0.11

The weighted average remaining contractual life of the share options outstanding at the end of the period was 0.69 years (2017: 1.31 years).

(a) Options

During the year ended 30 June 2018, 2,055,000 options were granted to various employees, including key management personnel in 3 Tranches. The company has internally measured the fair value of the options granted by adopting a Black-Scholes pricing model. The key inputs for the model are tabled on the following page.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

Black-Scholes Pricing Model			
Tranche	**1**	**2**	**3**
Grant Date	31/07/2017	31/07/2017	31/07/2017
Date of Expiry	30/06/2021	30/06/2021	30/06/2021
Vesting trigger date	31/07/2018	31/07/2019	31/07/2020
Exercise Price	$0.15	$0.15	$0.15
Share Price (at issue date)	$0.07	$0.07	$0.07
Risk free interest rate	1.85%	1.94%	2.00%
Volatility	72.43%	74.33%	74.57%
Years to Expiry	2.42 years	2.92 years	3.42 years
Number of Rights Granted	685,000	685,000	685,000
Fair Value Per Right	$0.016	$0.02	$0.023
Total Fair Value	$10,960	$13,700	$15,755

(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:

	2018 $	2017 $
Options issued under the executive & employee option plan	**24,800**	21,313
	24,800	21,313

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 27: SEGMENT INFORMATION

The company has identified its operating segments based on the internal reports that are reviewed and used by the board of directors in assessing performance and determining the allocation of resources. The reportable segment is represented by the primary statements forming this financial report.

At the end of the financial year, the Group was operating primarily in one segment, as an exploration business in Australia.

NOTE 28: PARENT ENTITY FINANCIAL INFORMATION

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

	2018 $	2017 $
Arafura Resources Ltd (Parent)		
Statement of Financial Position		
Current assets	**8,082,770**	12,759,384
Total assets	**101,956,870**	102,891,939
Current Liabilities	**2,155,234**	995,765
Total Liabilities	**2,506,229**	1,327,089
Shareholders' Equity		
Issued Capital	**203,567,241**	200,590,837
Reserves		
Option Reserve	**11,675,463**	11,650,663
Accumulated Loss	**(115,792,063)**	(110,676,651)
Loss for the year	**(5,115,412)**	(3,413,332)
Total comprehensive loss	**(5,115,412)**	(3,413,332)

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

All commitments and contingencies of the Group are held in the name of the Parent entity. Refer to note 20 for full disclosure of these items.

DIRECTORS' DECLARATION

DECLARATION BY DIRECTORS

The Directors of the Company declare that:

(1) The financial statements comprising the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows, Consolidated Statement of Changes in Equity, accompanying notes are in accordance with the Corporations Act 2001, and:

(a) comply with Accounting Standards, Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) give a true and fair view of the financial position as at 30 June 2018 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 25 to 37 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, Chairman
19 September 2018

INDEPENDENT AUDITOR'S REPORT

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To the members of Arafura Resources Limited

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Opinion

We have audited the financial report of Arafura Resources Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the Corporations Act 2001, including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and

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

Basis for opinion

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

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

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

Key audit matters

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

INDEPENDENT AUDITOR'S REPORT

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ACCOUNTING FOR EXPLORATION AND EVALUATION ASSETS

Key audit matter	How the matter was addressed in our audit
At 30 June 2018, we note that the carrying value of the Deferred Exploration and Evaluation Asset is significant to the financial statements, as disclosed in note 10. As the carrying value of the Deferred Exploration and Evaluation Asset represents a significant asset of the Group, we considered it necessary to assess whether any facts or circumstances exist to suggest that the carrying amount of this asset may exceed its recoverable amount. Judgement is applied in determining the treatment of exploration expenditure in accordance with Australian Accounting Standard AASB 6 Exploration for and Evaluation of Mineral Resources. In particular: • Whether the conditions for capitalisation are satisfied; • Which elements of exploration and evaluation expenditures qualify for recognition; and • Whether facts and circumstances indicate that the exploration and evaluation assets should be tested for impairment.	Our procedures included, but were not limited to: • Obtaining a schedule of the areas of interest held by the Group and assessing whether the rights to tenure of those areas of interest remained current at balance date; • Considering the status of the ongoing exploration programmes in the respective areas of interest by holding discussions with management, and reviewing the Group's exploration budgets, ASX announcements and directors' minutes; • Considering whether any such areas of interest had reached a stage where a reasonable assessment of economically recoverable reserves existed; • Verifying, on a sample basis, exploration and evaluation expenditure capitalised during the year for compliance with the recognition and measurement criteria of AASB 6; • Considering whether any facts of circumstances existed to suggest impairment testing was required; and • Assessing the adequacy of the related disclosures in Note 10 of the Financial Report.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and the auditor's report thereon.

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

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

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

Responsibilities of the directors for the Financial Report

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

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

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Auditor's responsibilities for the audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

REPORT ON THE REMUNERATION REPORT

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 25 to 37 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Arafura Resources Limited, for the year ended 30 June 2018, complies with section 300A of the Corporations Act 2001.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit (WA) Pty Ltd

JPrue

Jarrad Prue, Director

BDO Audit (WA) Pty Ltd
Perth, 19 September 2018

SHAREHOLDER INFORMATION OF ARAFURA RESOURCES LIMITED

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

1. Statement of issued capital at 18 September 2018:

a) Distribution of fully paid ordinary shareholders:

Size of holding	Number of shareholders	Number of shares
100,001 and Over	602	511,664,854
10,001 to 100,000	2,811	99,777,608
5,001 to 10,000	1,362	11,110,167
1,001 to 5,000	1,746	5,257,042
1 to 1,000	954	440,272
	7,475	**628,249,943**

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 18 September 2018, there existed 2,981 shareholders who held less than a marketable parcel of shares.

2. Substantial shareholders at 18 September 2018 as per their notices:

Name	Ordinary shares %
J P Morgan Nominees Australia Limited	19.43
ECE Nolans Investment Company Pty Ltd	17.46

SHAREHOLDER INFORMATION OF ARAFURA RESOURCES LIMITED

3. Quotation

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

As at 18 September 2018, the twenty largest shareholders held 343,203,671 of the fully paid ordinary shares in Arafura Resources Limited and they are:

No.	Name	Shares	% of issued
1	J P MORGAN NOMINEES AUSTRALIA LIMITED	122,082,545	19.43
2	ECE NOLANS INVESTMENT COMPANY PTY LTD	109,699,833	17.46
3	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	22,526,130	3.59
4	CITICORP NOMINEES PTY LIMITED	20,997,927	3.34
5	BNP PARIBAS NOMINEES PTY LTD	8,678,704	1.38
6	FAIRMONT ADVISORS LLC	6,755,000	1.08
7	KAOS INVESTMENTS PTY LIMITED	6,600,000	1.05
8	SBI INVESTMENTS (PR) LLC	6,250,000	0.99
9	BNP PARIBAS NOMS PTY LTD	5,427,097	0.86
10	MR JIN KOO LEE	4,263,291	0.68
11	NEWECONOMY COM AU NOMINEES PTY LIMITED	3,750,458	0.60
12	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	3,473,693	0.55
13	MR TIN SHEE CHEE & MRS YIN MUI CHEE	3,450,000	0.55
14	BNP PARIBAS NOMS PTY LTD	3,399,000	0.54
15	MR DAVID JOHN HARRISON	3,076,009	0.49
16	MR JULIAN PAUL LEACH	3,049,414	0.49
17	MR ZHIGANG WANG	2,894,278	0.46
18	ALAIN SALZER LEVI	2,500,000	0.40
19	MR CHRISTOPHER DAVID JOHNSON	2,360,000	0.38
20	GULE INVESTMENTS PTY LTD	1,970,292	0.31
		343,203,671	**54.63**

SHAREHOLDER INFORMATION OF ARAFURA RESOURCES LIMITED

Tenement reference	Project	Holder	Nature of interest	Interest at beginning of year	Interest at end of year	Notes
ML 26659	Nolans, NT	Arafura Rare Earths Pty Ltd	Mineral Lease	100%	100%	Application Lodged
ML 30702				100%	100%	Application Lodged
ML 30703				100%	100%	Application Lodged
ML 30704				100%	100%	Application Lodged
EL 28473	Aileron – Reynolds, NT	Arafura Resources Ltd	Exploration Licence	100%	100%	
EL 28498				100%	100%	
EL 29509				100%	100%	
EL 31096				100%	100%	
EL 31097				100%	100%	
EL 31224				100%	100%	
EL 31284				100%	100%	
EL 29701	Bonya, NT (previously known as Jervois)	Arafura Resources Ltd	Exploration Licence	100%	60%	Joint Venture - Rox Resources Ltd 40%, Arafura Resources Limited 60% (1)

(1) Thor Mining Plc has subsequently purchased Rox Resources' 40% interest; however transfer is still pending.

ARAFURA

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