ARAFURA RESOURCES LIMITED

ABN 22 080 933 455

Consolidated Interim Financial Report For the Half-Year Ended 31 December 2015

CORPORATE OFFICE

Level 3, 263 Adelaide Terrace
Perth, Western Australia 6000
Australia

T: + 61 8 6210 7666
www.arultd.com

CONTENTS

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Arafura Resources Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2015.

Directors

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

I Kowalick
C Tonkin
T Grose
C Ding
G Lockyer

Review of operations

During the half year Arafura received a tax rebate of A$3.0 Million for eligible research and development (R&D) expenditure incurred in the development of the Nolans project. The company also received an additional rebate amount of $475,000 for eligible overseas expenditure in January. The ongoing support by the Australian Government in the form of the R&D Tax Incentive program brings the total cash receipts for the Company from the rebate incentive scheme to A$33.0 million.

A review of the carrying value of non-current assets as at 31 December 2015 was also conducted by the Board of Arafura. As a consequence of this review, the Board has identified a non-cash impairment charge to deferred evaluation and exploration expenses of $27,731,979.The Net Loss for the half year was ($28,983,227) and includes the impairment charge of $27,731,979. The Net Loss, excluding the R&D tax incentive rebate and the impairment of assets charge, is ($2,201,975) compared with the December 2014 Net Loss of ($2,777,699). The improvement in the comparative Net Loss is also reflected in the Statement of Cashflows showing the net decrease in cash equivalents being ($1,903754) for the half year ended 31 December 2015, (December 2014 $6,051,297).

During the half year ending 31 December 2015, Arafura remained focused on advancing the Nolans Rare Earths Project along the path to development. Attention was focused on the following areas:

MOU Signed with OCI Company LTD

During the period, Arafura agreed and signed a Memorandum of Understanding ("MOU") with South Korean chemical manufacturer OCI Company Ltd ("OCI"), with a view to establishing an Arafura/OCI Joint Venture for a Rare Earth ("RE") Separation Plant in South Korea.

Korea Exchange-listed OCI is headquartered in Seoul, South Korea, with operations in theUSA, China and Europe. OCI's core business is chemical manufacturing, and it has an extensive product portfolio for the manufacture and sale of inorganic, petro and coal chemicals, fine chemicals and renewable energy.

Under the agreement, the companies will examine and negotiate proposals for:

- The supply by OCI of reagents for the Nolans Project and in particular to the RE Separation Plant;
- OCI to provide assistance to Arafura to access infrastructure and critical services for the operation of the RE Separation Plant;
- Research & Development collaboration and RE separation piloting;
- Establishing a business model whereby the parties will jointly fund the establishment of the Rare Earth Separation Plant and toll process Nolans mixed RE intermediate or carbonate product;
- Investment opportunities for OCI into the RE Separation Plant; and an equity investment by OCI in Arafura itself.

Significant reduction in Nolans CAPEX

An independent engineering analysis of the Nolans Project was completed during the half year, with the analysis identifying substantial capital expenditure ("CAPEX") savings in the Project's development.

The total initial CAPEX for the Nolans Project is now estimated at A$1,193 million (or US$835 million at A$1 = US$0.70) inclusive of 20% contingency but excluding deferred capital. It comprises direct costs of A$764 million at the Nolans Site in Australia and A$95 million at the offshore RE Separation Plant.

The new CAPEX figure represents savings of A$299 million (or 21%) from the June 2015 estimate, and savings of A$719 million or 38% from April 2013 when Arafura commenced initiatives to improve the viability and fundability of the Nolans Project.

Regulatory approvals – Environmental Impact Statement studies

Considerable resources continue to be focussed on environmental work programs and the Company remains on target to lodge the Nolans Environmental Impact Statement ("EIS") with the Northern Territory Environment Protection Authority ("EPA") in Q1 CY2016. Key work programs for the half year included:

- Consolidation of the Company's groundwater monitoring data and continuation of groundwater modelling;

- Completion of waste rock and residue characterisation work. This program also assisted with a recent Mineral Resource upgrade for the Nolans Bore deposit (see Exploration); and

- Advancing EIS report writing which also included a number of risk management workshops to assess the key Project risks from an environment, safety and community perspective. All risks identified to date are manageable using standard operational controls.

Increase in Nolans mineral resources

Arafura advised of a significant increase in Mineral Resources for the Nolans Bore deposit during the reporting period, substantially increasing the economics and feasibility of the Nolans Project.

Total Mineral Resources at Nolans Bore are now estimated to be 56 million tonnes @ 2.6% total rare earth oxides ("TREO"). These have been classified into Measured, Indicated and Inferred Mineral Resources in Table using a 1% TREO cut-off grade ("COG"). The contained (in-situ) resources of rare earths are also shown in the table below.

RESOURCES	TONNES million	RARE EARTHS TREO %	TONNES TREO	PHOSPHATE P_2O_5 %	URANIUM U_3O_8 lb/t
Measured	4.9	3.2	158,000	13	0.54
Indicated	30	2.7	816,000	12	0.44
Inferred	21	2.3	489,000	10	0.36
TOTAL	56	2.6	1,462,000	12	0.42

Numbers may not compute exactly due to rounding. 1 lb/t U_3O_8 = 0.0454% U_3O_8

Both the current and previous resource estimates have been reported and classified in accordance with the guidelines of the 2012 edition of the JORC Code.

The impetus for this resource update was the necessity to characterise the Project's life-of-mine waste rocks, including their radioactivity, which is a key component of the Nolans EIS studies that are nearing completion. This comprehensive review by Arafura's geologists led to the development of a new and improved geological model for mineralisation at Nolans Bore, which has been adopted for this estimate. No additional drilling has occurred on the Project since the 2014 estimate.

Tenements

Yalyirimbi (Iron)

Ferrowest Limited ("Ferrowest"; ASX: FWL) and the Company recently entered into a Deed of Cancellation in respect of all future Ferrowest iron ore rights in the Yalyirimbi Iron Project on EL 24548. The Company is the owner of the underlying mineral tenement, and iron rights are held through Arafura Iron Pty Ltd ("AIPL"). The Deed of Cancellation was executed in September 2015 and unwinds Ferrowest's participation in Yalyirimbi and results in the following:

- Transfer of the 51% of the shares in AIPL held by Ferrowest back to the Company. AIPL now being a wholly owned subsidiary of the Company;
- Resignation of the two Ferrowest nominated directors from the AIPL Board;
- Withdrawal of the tenement's environmental bond and settlement of money owed by Ferrowest to the Company;
- Transfer of all project information and samples back to Arafura; and
- Cancellation of all future Ferrowest rights in the project and EL 24548.

Jervois (Base and Precious Metals; Iron-Vanadium)

Rox Resources Ltd (ASX: RXL, or "Rox") reported multiple intercepts of copper sulphide mineralisation in RC drilling at the Bonya Mine prospect on EL 29701 during December (ASX: RXL 21/12/15). The best result was 6 metres @ 2.6% Cu from 140 metres down hole in BYRC020. Rox anticipates undertaking surface mapping and ground geophysics in advance of further drilling at the Bonya Mine prospect.

Elsewhere at the new Green Gully prospect (located approximately 4 kilometres north of the Bonya Mine prospect) Rox drilled three RC holes to test the down dip extent of surface copper oxide mineralisation. Two of the holes located 75 metres apart encountered low grade copper mineralisation over several metres, including an interval of 2 metres @ 3.2% Cu from 29 metres down hole in GGRC001.

Rox holds a 51% interest in the base and precious metal rights on EL 29701, and has elected to earn 70% by spending an additional A$1 million on the tenement by December 2016.

MT Porter Francis Creek (Gold)

During the half year, Ark Mines Ltd (ASX: AHK, or "Ark") elected to earn a further 30% interest in the Mining Farmin and Joint Venture Agreement with Arafura over the Mt Porter and Frances Creek gold tenements, following the completion by Ark of its first earning obligations. Ark currently holds a 40% interest in the tenements and has elected to increase this to 70% by extending the earning period and agreeing to spend the greater of A$1.6 million or the aggregate amount necessary to satisfy tenement conditions, on or before 14 July 2017.

Segment Information

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

	Segment expenditures		Segment revenues		Capitalised		Segment results	
	2015 $	2014 $	2015 $	2014 $	2015 $	2014 $	2015 $	2014 $
Project evaluation	(29,335,531)	(2,700,966)	-	-	(1,621,677)	(2,700,966)	(27,713,854)	-
Exploration	(248,291)	(214,511)	-	-	(230,166)	(214,511)	(18,125)	-
Corporate	(2,353,187)	(3,027,596)	950,727	-	-	-	(1,402,460)	(3,027,596)
Total(s)	**(31,937,009)**	**(5,943,073)**	**950,727**	-	**(1,851,843)**	**(2,915,477)**	**(29,134,439)**	**(3,027,596)**

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

(a) Project evaluation

Expenditure incurred in this segment was primarily focussed on environmental work programs with the aim of completing the Nolans Environmental Impact Statement and engineering analysis to refine the Nolans project and continually improve on CAPEX and OPEX metrics. The Company has also recognised in this segment $27,713,854 in impairment charges relating to previously capitalised evaluation expenditure. Refer to note 10 for more information regarding the impairment.

(b) Exploration

Expenditure incurred in this segment was primarily used to maintain tenements. There has been a significant reduction on in-ground exploration due to a number of tenements being farmed out with companies including Ark Mines Ltd, Rox Resources Ltd, as Arafura maintains its primary focus on progressing the Nolans project.

(c) Corporate

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

Nameplate Production – CAPEX Estimates

The CAPEX estimates in this document are based on a nameplate production target of 20,000 tonnes per annum of TREO equivalent from Measured and Indicated Mineral Resources at Nolans Bore. The Mineral Resources were estimated and reported by the Company (ASX: ARU 30/10/15) following the guidelines of the JORC Code 2012.

Classification of total resources at Nolans Bore into Measured, Indicated and Inferred resources, using a 1.0% TREO cut-off grade, is shown in Table 2. Contained (in-situ) resources of rare earths are also shown.

Competent Persons Statement

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

Events occurring after the Reporting Date

No reportable events have occurred since the reporting date.

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 9.

Signed in accordance with a resolution of the Directors.

Gavin Lockyer
CEO & Managing Director

Perth
11 March 2016

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

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

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

As lead auditor for the review of Arafura Resources Limited for the half-year ended 31 December 2015, I declare that to the best of my knowledge and belief, there have been:

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

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

JPrue

Jarrad Prue
Director

BDO Audit (WA) Pty Ltd

Perth, 11 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

		Consolidated Entity Half Year	
		31-Dec 2015	31-Dec 2014
	Notes	$	$
Revenue from continuing operations	3	186,858	361,501
Non-capitalised portion of R&D tax incentive rebate		950,727	-
Other income	3	13,343	6,213
Employee benefits expense	4	(1,396,420)	(1,535,537)
Other expenses	4	(974,000)	(1,522,180)
Depreciation and amortisation	4	(28,346)	(82,745)
Finance costs	4	(3,410)	(4,951)
Impairment of assets	4 & 10	(27,731,979)	-
Loss before income tax		**(28,983,227)**	**(2,777,699)**
Income tax benefit		-	-
Net (Loss) for the half year		**(28,983,227)**	**(2,777,699)**
Total comprehensive(loss) for the half year		**(28,983,227)**	**(2,777,699)**
Total comprehensive (loss) for the half year attributable to owners of Arafura Resources Limited		**(28,983,227)**	**(2,777,699)**
		Cents	**Cents**
Earnings per share for (loss) attributable to owners of Arafura Resources Limited			
Basic loss per share		(6.6)	(0.6)
Diluted loss per share		(6.6)	(0.6)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

		Consolidated Entity Half Year	
		31-Dec	30-Jun
		2015	2015
	Notes	**$**	$
CURRENT ASSETS			
Cash and cash equivalents		**14,725,071**	16,520,229
Trade and other receivables		**708,443**	302,777
Total Current Assets		**15,433,514**	16,823,006
NON-CURRENT ASSETS			
Property, plant and equipment		**156,971**	185,317
Deferred exploration, evaluation and development costs	5	**87,002,038**	114,923,897
Other Assets		**254,046**	256,306
Total Non-Current Assets		**87,413,055**	115,365,520
TOTAL ASSETS		**102,846,569**	132,188,526
CURRENT LIABILITIES			
Trade and other payables		**769,350**	1,080,887
Provisions	6	**401,819**	408,620
Total Current Liabilities		**1,171,169**	1,489,507
NON-CURRENT LIABILITIES			
Provisions	6	**256,232**	313,857
Total Non-Current Liabilities		**256,232**	313,857
TOTAL LIABILITIES		**1,427,401**	1,803,364
NET ASSETS		**101,419,168**	130,385,162
EQUITY			
Contributed equity	7	**194,128,196**	194,128,196
Reserves		**11,612,582**	11,595,349
Accumulated losses		**(104,321,610)**	(75,338,383)
TOTAL EQUITY		**101,419,168**	130,385,162

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

Consolidated & Parent	Notes	Contributed equity $	Equity reserve $	Accumulated Losses $	Total $
Balance at 1 July 2014		**194,128,196**	**11,515,916**	**(71,130,246)**	**134,513,866**
Total Comprehensive Loss for Half Year					
Loss for the half-year		-	-	(2,777,699)	(2,777,699)
Total Comprehensive Loss for Half Year		-	-	(2,777,699)	(2,777,699)
Transactions with owners in their capacity as owners					
Cost of Share based Options		-	35,072	-	35,072
Balance at 31 December 2014		**194,128,196**	**11,550,988**	**(73,907,945)**	**131,771,239**
Balance at 1 July 2015		**194,128,196**	**11,595,349**	**(75,338,383)**	**130,385,162**
Total Comprehensive Loss for Half Year					
Loss for the half-year		-	-	(28,983,227)	(28,983,227)
Total Comprehensive Loss for Half Year		-	-	(28,983,227)	(28,983,227)
Transactions with owners in their capacity as owners					
Cost of Share based Options		-	17,233	-	17,233
Balance at 31 December 2015	7	**194,128,196**	**11,612,582**	**(104,321,610)**	**101,419,168**

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

	Consolidated Entity Half Year	
	31-Dec 2015 $	31-Dec 2014 $
Cash flows from operating activities		
Payments to suppliers and employees	**(2,669,660)**	(3,217,413)
R&D Receipt - P&L portion	**892,056**	-
Interest received	**200,949**	435,111
Interest paid	**(3,410)**	(4,951)
Other	**-**	269,746
Net cash (outflow) from operating activities	**(1,580,065)**	(2,517,507)
Cash flows from investing activities		
Payment for property, plant and equipment	**-**	(70,242)
R&D incentive rebate – capitalised portion	**2,100,394**	-
Payments for exploration and evaluation	**(2,372,784)**	(3,463,548)
Other	**(51,299)**	-
Net cash (outflow) from investing activities	**(323,689)**	(3,533,790)
Net decrease in cash and cash equivalents	**(1,903,754)**	(6,051,297)
Cash at the beginning of the financial year	**16,615,482**	24,547,030
Effects of exchange rate changes	**13,343**	6,213
Cash and cash equivalents at the end of the financial year	**14,725,071**	18,501,946

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

Note 1: Basis of Preparation of Half-Year Report

(a) Basis of preparation

This general purpose financial report for the interim half-year reporting period ended 31 December 2015 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2015 and any public announcements made by Arafura Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

New and amended standards adopted by the entity

A number of new or amended standards became applicable for the current reporting period, however, the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards. There may be some changes to the disclosures in the 30 June 2016 annual report as a consequence of these amendments.

Impact of standards issued but not yet applied by the entity

There were no new standards issued since 30 June 2015 that have been applied by Arafura Resources Limited. The 30 June 2015 annual report disclosed that Arafura Resources anticipated no material impacts (amounts recognised and/or disclosed) arising from initial application of those standards issued but not yet applied at that date, and this remains the assessment as at 31 December 2015.

Note 2: Segment Information

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

(a) Description of segments

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

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

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

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

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

(b) Segment information provided to the Arafura Board

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

The segment information provided to the Arafura Board for the reportable segments for the half-year ended 31 December 2015 is as follows:

Note 2: Segment Information - Continued

	Project evaluation	Exploration	Corporate	Total
6 Months to 31 December 2015				
Segment revenue	-	-	950,727	950,727
Segment expenditure	(29,335,531)	(248,291)	(2,353,187)	(31,937,009)
Inter-segment expenditure				
	(29,335,531)	(248,291)	(1,402,460)	(30,986,282)
Adjusted EBITDA	**(27,713,854)**	**(18,125)**	**(1,402,460)**	**(29,134,439)**
Capitalised expenditure	(1,621,677)	(230,166)	-	(1,851,843)
	(29,335,531)	(248,291)	(1,402,460)	(30,986,282)
6 months to 31 December 2014				
Segment revenue	-	-	-	-
Segment expenditure	(2,700,966)	(214,511)	(3,027,596)	(5,943,073)
Inter-segment expenditure				
	(2,700,966)	(214,511)	(3,027,596)	(5,943,073)
Adjusted EBITDA	**-**	**-**	**(3,027,596)**	**(3,027,596)**
Capitalised expenditure	(2,700,966)	(214,511)	-	(2,915,477)
	(2,700,966)	(214,511)	(3,027,596)	(5,943,073)
Total segment assets				
31-Dec-15	72,794,369	14,207,670	15,844,530	102,846,569
30-Jun-15	100,928,267	13,995,629	17,264,630	132,188,526
Total segment liabilities				
31-Dec-15	623,451	8,003	795,947	1,427,401
30-Jun-15	598,123	24,582	1,180,658	1,803,363

Note 2: Segment Information - Continued

	Consolidated Entity Half Year	
	31-Dec 2015 $	31-Dec 2014 $
Adjusted EBITDA	(29,134,439)	(3,027,596)
Interest Received	186,858	361,501
Finance Costs	(3,410)	-
Depreciation & amortisation	(28,346)	(82,745)
Share option expense	(17,233)	(35,072)
Unrealised exchange rate (loss)/gain	13,343	6,213
Loss before income tax	**(28,983,227)**	**(2,777,699)**

Note 3: Revenue

	Consolidated Entity Half Year	
	31-Dec 2015 $	31-Dec 2014 $
Revenue from continuing operations		
Interest received	**186,858**	361,501
	186,858	361,501
Other Income		
Foreign exchange gain/(loss)	**13,343**	6,213
Non-capitalised portion of R&D Tax Incentive rebate	**950,727**	-
	964,070	6,213
Total Revenue	**1,150,928**	367,713

Note 4: Expenses

	Consolidated Entity Half Year	
	31-Dec 2015 $	31-Dec 2014 $
(a) Expenses		
Depreciation		
Depreciation – plant & equipment	**19,872**	18,060
Depreciation – leasehold improvements	**8,474**	64,685
Total depreciation	**28,346**	82,745
Finance costs		
Interest expense	**3,410**	4,951
Total finance costs	**3,410**	4,951
Other expenses		
Accounting and other professional fees	**59,407**	15,246
Audit fees	**30,334**	16,560
Consultants fees	**188,151**	455,248
Employee benefits expense	**1,379,187**	1,500,465
Insurance	**38,318**	35,329
Legal fees	**79,706**	150,067
Share-based employee benefits	**17,233**	35,072
Share registry and stock listing fees	**42,240**	49,433
Other expenses	**535,844**	800,297
Total other expenses	**2,370,420**	3,057,717
Impairment Expenses		
Capitalised exploration expenditure	18,125	-
Capitalised evaluation expenditure	27,713,854	-
Total impairment of assets	**27,731,979**	-

Note 5: Deferred Exploration and Evaluation Expenditure

	Consolidated Entity Half Year	
	31-Dec 2015 $	30-Jun 2015 $
Exploration, evaluation and development costs carried forward		
Balance at beginning of year	**114,923,897**	111,602,476
Capitalised exploration expenditure	**230,166**	297,782
Capitalised evaluation expenditure [(a)]	**1,621,676**	5,287,574
Impairment of exploration expenditure [(b)]	**(18,125)**	-
Impairment of evaluation expenditure [(b)]	**(27,713,854)**	-
R&D Tax Incentive rebate receipted against capitalised evaluation costs	**(2,041,722)**	(2,263,935)
Balance at end of year	**87,002,038**	114,923,897

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

(b) Further information on impairment can be found in note 10.

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

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

Note 6: Current and Non-Current Liabilities - Provisions

	Consolidated Entity Half-Year	
	31 Dec 2015 $	30 Jun 2015 $
Current		
Provision for Annual Leave	**234,527**	226,120
Provision – Operating Lease Incentive	**167,292**	182,500
	401,819	408,620
Non-Current		
Provision for long service Leave	**256,232**	237,815
Provision – Operating Lease Incentive	**-**	76,042
	256,232	313,857

Note 7: Contributed Equity

Issues of ordinary shares during the half-year:

	December 2015 Shares	December 2014 Shares	**December 2015 $**	December 2014 $
Balance at 30 June	**441,270,644**	441,270,644	**194,128,196**	194,128,196
Employee options exercised	-	-	-	-
Private Placement	**-**	-	**-**	-
Capital raising costs	**-**	-	**-**	-
Balance at 31 December	**441,270,644**	441,270,644	**194,128,196**	194,128,196

Note 8: Dividends

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

Note 9: Related Party Transactions

There were no related party transactions during the half-year other than payments to key management personnel which were in line with 30 June 2015.

Note 10: Impairments

During the half year, the Board of the Company conducted a review of the carrying value of non-current assets as at 31 December 2015. As a consequence of the review, the Board has identified a non-cash impairment charge to previously capitalised evaluation assets of $27,713,854.

The Nolans flowsheet has been developed over a number of years and is supported by detailed process modelling from mine to final products. The flowsheet is now based on sulphuric acid pre leach and double sulphate precipitation ("SAPL/ DSP"). The anticipated impairment charge has resulted from a review of the deferred evaluation costs for the Nolans Project and specifically those incurred in the development of the now superseded hydrochloric acid ("HCl") pre-leach flowsheet. The most recent operating (OPEX) and capital expenditure (CAPEX) estimates (ARU: ASX 03/06/15 and ARU: ASX 18/11/15, respectively) for the SAPL/ DSP flowsheet demonstrates the significant operational efficiencies of this flowsheet when compared with the HCl flowsheet. The Company is continuing its optimisation work to potentially realise further expenditure improvements for the SAPL/ DSP flowsheet.

The Project's SAPL/ DSP flowsheet has provided significant Project improvements and as such it is logical to review the capitalised expenditure relating to evaluation of the HCl flowsheet to determine if the deferred evaluation costs should continue to be carried forward as an asset. The Company has taken a conservative approach and decided to expense the evaluation costs for the demonstration-scale HCl pre-leach and sulphation program in 2011 and 2012. Additionally some smaller scale testwork expenses for co-products and the recycle of reagents that were specific to the HCl flowsheet have also been expensed; however the majority of the impairment charge relates to the demonstration-scale program. The Company continues to leverage its flowsheet development with the data collected through all prior testwork programs but the data and information generated from the demonstration-scale work has limited relevance and benefit to the SAPL/ DSP flowsheet and ongoing development programs. Arafura believes it is prudent to make the relevant adjustment to better reflect the financial position of the Company.

Note 10: Impairments (continued)

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

An amount of $18,125 has also been impaired from previous exploration expenditure due to relinquishing the rights of tenements previously held.

Note 11: Interest in Subsidiaries

On the 22nd of September 2015 it was announced that the Company and Ferrowest Limited ("Ferrowest"; ASX: FWL) entered into a Deed of Cancellation in respect of all future Ferrowest iron ore rights in the Yalyirimbi Iron Project on EL 24548. The Company is the owner of the underlying mineral tenement, and iron rights are held through Arafura Iron Pty Ltd ("AIPL"), this unwinds Ferrowest's participation in Yalyirimbi and means that the 51% of the shares held in AIPL by Ferrowest will be transferred back to the Company resulting in AIPL being 100% owned by Arafura.

Two Ferrowest nominated directors have also resigned from the AIPL Board and all money owed by Ferrowest to the Company has been settled prior to the release of these accounts.

Note 12: Commitments

There have been no significant changes in commitments and contingencies since the release of the 30 June 2015 Financial Statements.

Note 13: Events occurring after the Reporting Date

No reportable events have occurred after the reporting date.

DIRECTORS’ DECLARATION

FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

In the Directors’ opinion:

(a) the financial statements and notes set out on pages 14 to 22 are in accordance with the *Corporations Act 2001*; and

(I) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) give a true and fair view of the consolidated entity’s financial position as at 31 December 2015 and of its performance for the half-year ended on that date.

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

Gavin Lockyer
CEO & Managing Director

Perth
11 March 2016

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

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

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Arafura Resources Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Arafura Resources Limited, which comprises the consolidated statement of financial position as at 31 December 2015, 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 half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Arafura Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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

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

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*

BDO Audit (WA) Pty Ltd

BDO
JPrue

Jarrad Prue

Director

Perth, 11 March 2016