ARAFURA RESOURCES LIMITED

ABN 22 080 933 455

Consolidated Interim Financial Report For the Half-Year Ended 31 December 2016

CORPORATE OFFICE

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

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

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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 2016.

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*
Z Quansheng*
G Lockyer

*Mr Ding retired as a Non-Executive Director of the Company at Arafura's Annual General Meeting held on 18 November 2016. At the same meeting, Mr Quansheng was appointed by shareholders to replace Mr Ding as Non-Executive Director.

Review of operations

The net loss for the 2016 half year was ($1,274,084). Excluding non-core operational items such as the research and development ("R&D") tax incentive rebate and impairment charges, the Company's loss has improved to ($2,116,432) from an adjusted December 2015 net loss of ($2,201,975). The improvement in the comparative net loss is also reflected in the Statement of Cashflows showing a continued net improvement in cash payments to suppliers and employees of $372,682 over the comparative periods.

During the half year Arafura received a tax rebate of $1.8 million for eligible R&D expenditure incurred in the development of its 100 per cent-owned Nolans Neodymium-Praseodymium ("NdPr") project in the Northern Territory. 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 $35.2 million.

Arafura's compounding tax incentives, remaining cash reserves and refined cash expenditure model have allowed the Company to remain focused on advancing the Nolans project along the path to development, in particular, relating to environmental and project related expenditure. During the six-month period ending 31 December 2016, focus has been on the following areas:

Beneficiation Pilot Scale Program

The Company's beneficiation piloting program was completed in December at ALS Metallurgy's Balcatta facility in Perth. The program consisted of 4 days' continuous operation of four stages of rougher flotation fed at a rate of 150 kilograms of milled material (25% solids) per hour. The aim of the beneficiation pilot operation was to selectively reject gangue minerals and recover rare earths ("REs") and phosphate to produce a high phosphate concentrate ("HPC") containing valuable REs, especially NdPr.

The operation of the pilot program provided data to assess the processing performance of the flotation circuit, being the major unit operation of the beneficiation plant, and to obtain data for the engineering definition study and final feasibility. The program has resulted in the production of approximately 5 tonnes of HPC from approximately 14 tonnes of phosphate-rich feed to be used in the piloting of the phosphoric acid pre-leach circuit.

The program was completed using material collected from the 2010 wide-diameter drilling campaign that is representative of the first ten years of the mine schedule at the planned nameplate production of 14,000 tonnes of total RE oxide ("TREO") per annum. The operation of the beneficiation pilot program included the collection of data for radionuclide deportment and chemistry, and slurry samples have also been provided to selected vendors to assist with further tests for thickeners and filtration.

The Company engaged an independent engineering consultant to review the processing conditions and operation of the beneficiation pilot to validate and define the program's performance and operating data for the purposes of detailed engineering. Excellent results were obtained from this program – please refer to the announcement dated 6 February 2017.

Regulatory Approvals – Environmental Impact Statement Studies

During the period, the Company worked through its responses to adequately address the matters raised in the public review phase of the Environmental Impact Statement ("EIS") assessment process and after the 31 December 2016 period has lodged the Supplement to the EIS with the Northern Territory Environment Protection Authority. The key theme that emerged from the EIS public review was ground and surface water, but other areas such as radiation and biodiversity also attracted the attention of respondents.

Please refer to the announcement dated 20 February 2017 for further information about the work leading up to this key milestone.

Nolans Project Awarded Major Project Status

During the half year Arafura announced that the Nolans project had attained Major Project Facilitation ("MPF") status with the Australian Government.

The MPF program is managed through the Department of Infrastructure and Regional Development. It provides Nolans with a tailored facilitation service to support a timely and efficient approvals process, including coordination of all relevant Australian and Northern Territory government processes so that they occur, as far as practicable, simultaneously and without delay.

As evidenced above, Arafura has positioned itself well with state, federal and other regulatory bodies. When coupled with its successful optimisation programs and continued advancement of the project, the Company is setting itself up to take advantage of the forecasted Neodymium supply deficit that looms in the near future.

Tenements

AILERON – REYNOLDS (Rare Earths)

The Northern Territory Department of Primary Industry and Resources ("DPIR") offered, and the Company accepted, the grant of exploration licences ("ELs") 31224 and 31284 in the half year. The offer and grant for these ELs along with ELs 31095, 31096 and 31097 form part of the Company's ongoing strategic review of its exploration activities, targeting areas within its Aileron-Reynolds project it considers to be prospective for REs.

JERVOIS (Base and Precious Metals; Iron-Vanadium)

Rox Resources Ltd (ASX: RXL, or "Rox") holds a 51 per cent interest in the base and precious metal rights on EL 29701, and has elected to earn 70 per cent by spending an additional $1 million on the tenement. Rox and the Company recently agreed a 12-month extension, to December 2017, for this earn in expenditure target.

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	
	31 Dec 2016 $	31 Dec 2015 $	31 Dec 2016 $	31 Dec 2015 $	31 Dec 2016 $	31 Dec 2015 $	31 Dec 2016 $	31 Dec 2015 $
Project evaluation	(356,711)	(29,335,531)	-	-	(356,711)	(1,621,677)	-	(27,713,854)
Exploration	(195,658)	(248,291)	-	-	(195,658)	(230,166)	-	(18,125)
Unallocated	(2,211,463)	(2,353,187)	847,253	950,727	-	-	(1,364,210)	(1,402,460)
Total(s)	**(2,763,832)**	**(31,937,009)**	**847,253**	**950,727**	**(552,369)**	**(1,851,843)**	**(1,364,210)**	**(29,134,439)**

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 ongoing engineering analysis and beneficiation testwork and piloting to refine and confirm the Nolans project's flowsheet which precedes definition engineering, as well as environmental work programs with the aim of completing the supplement to the Nolans Environmental Impact Statement, which has subsequently been lodged after the 31 December 2016 cut off.

(b) Exploration

Expenditure incurred in this segment was primarily used to maintain tenements. There has been a reduction on in-ground exploration due to a number of tenements being farmed out or sold as Arafura maintains its primary focus on progressing the Nolans project.

(c) Unallocated

Expenditure incurred was for corporate costs including legal, compliance, sales and marketing, business development, finance and commercial costs. The Company continues to save money in these areas without hindering the benefits to which these corporate costs contribute to the overall operation and value of the Company.

Events occurring after the Reporting Date

On the 20th of February 2017, the Company announced it had received $3.6m in commitments from sophisticated and institutional investors from international and domestic markets such as North America and Hong Kong. A Share Purchase Plan has also been offered to existing shareholders (refer to ARU announcement on 27/02/17) with the aim to raise up to $2.5m in additional funds that will allow Arafura to advance its piloting programs that when complete will lead to detailed definition engineering, being the final engineering stage before a commercialisation decision can be made.

There have been no other subsequent matters after 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 8.

Signed in accordance with a resolution of the Directors.

Gavin Lockyer
CEO & Managing Director

Perth
15 March 2017

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 2016, 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.

Jarrad Prue
Director

BDO Audit (WA) Pty Ltd

Perth, 15 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

		Consolidated Entity Half Year	
		31-Dec-16	31-Dec-15
	Notes	$	$
Revenue from continuing operations	3	132,954	186,858
Non-capitalised portion of R&D tax incentive rebate	3	847,253	950,727
Other income	3	366	13,343
Employee benefits expense	4	(1,144,201)	(1,396,420)
Other expenses	4	(1,078,795)	(974,000)
Depreciation and amortisation	4	(23,982)	(28,346)
Finance costs	4	(2,774)	(3,410)
Impairment of assets	4	(4,905)	(27,731,979)
Loss before income tax		**(1,274,084)**	**(28,983,227)**
Income tax benefit		-	-
Net (Loss) after income tax for the half year		**(1,274,084)**	**(28,983,227)**
Total comprehensive (loss) for the half year attributable to owners of Arafura Resources Limited		**(1,274,084)**	**(28,983,227)**
		Cents	**Cents**
Loss per share attributable to owners of Arafura Resources Limited			
Basic loss per share		(0.3)	(6.6)
Diluted loss per share		(0.3)	(6.6)

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 2016

	Notes	Consolidated Entity Half Year 31-Dec-16 $	30-Jun-16 $
CURRENT ASSETS			
Cash and cash equivalents		9,796,428	11,543,001
Trade and other receivables		249,981	481,353
Total Current Assets		**10,046,409**	**12,024,354**
NON-CURRENT ASSETS			
Property, plant and equipment		143,165	130,248
Deferred exploration, evaluation and development costs	5	87,855,898	87,308,434
Other assets		254,046	254,044
Total Non-Current Assets		**88,253,109**	**87,692,726**
TOTAL ASSETS		**98,299,518**	**99,717,080**
CURRENT LIABILITIES			
Trade and other payables		537,345	486,048
Provisions	6	227,788	460,678
Total Current Liabilities		**765,133**	**946,726**
NON-CURRENT LIABILITIES			
Provisions	6	302,709	276,127
Total Non-Current Liabilities		**302,709**	**276,127**
TOTAL LIABILITIES		**1,067,842**	**1,222,853**
NET ASSETS		**97,231,676**	**98,494,227**
EQUITY			
Contributed equity	7	194,128,196	194,128,196
Reserves		11,640,883	11,629,350
Accumulated losses		(108,537,403)	(107,263,319)
TOTAL EQUITY		**97,231,676**	**98,494,227**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

Consolidated	Notes	Contributed equity $	Equity reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2015		**194,128,196**	**11,595,349**	**(75,338,383)**	**130,385,162**
Total Comprehensive Loss for the Half Year					
Loss for the half year		-	-	(28,983,227)	(28,983,227)
Total Comprehensive Loss for the 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 Dec 2015		**194,128,196**	**11,612,582**	**(104,321,610)**	**101,419,168**
Balance at 1 July 2016		**194,128,196**	**11,629,350**	**(107,263,319)**	**98,494,227**
Total Comprehensive Loss for the Half Year					
Loss for the half year		-	-	(1,274,084)	(1,274,084)
Total Comprehensive Loss for the Half Year		**-**	**-**	**(1,274,084)**	**(1,274,084)**
Transactions with owners in their capacity as owners					
Cost of Share Based Options		-	11,533	-	11,533
Balance at 31 Dec 2016	7	**194,128,196**	**11,640,883**	**(108,537,403)**	**97,231,676**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Notes	Consolidated Entity Half Year 31-Dec-16 $	31-Dec-15 $
Cash flows from operating activities			
Payments to suppliers and employees		(2,296,978)	(2,669,660)
Interest received		147,267	200,949
R&D Incentive rebate - non capitalised portion		847,253	892,056
Interest paid		(2,774)	(3,410)
Net cash (outflow) from operating activities		**(1,305,232)**	**(1,580,065)**
Cash flows from investing activities			
Payment for property, plant and equipment		(36,902)	-
Payments for exploration and evaluation		(1,610,565)	(2,372,784)
R&D Incentive rebate - capitalised portion		905,760	2,100,394
Proceeds from sale of tenements		300,000	-
Other		-	(51,299)
Net cash (outflow) from investing activities		**(441,707)**	**(323,689)**
No cash flows from financing activities		**-**	**-**
Net increase/(decrease) in cash and cash equivalents		**(1,746,939)**	**(1,903,754)**
Cash at the beginning of the financial year		11,543,001	16,615,482
Effects of exchange rate changes on cash and cash equivalents		366	13,343
Cash and cash equivalents at the end of the financial year		**9,796,428**	**14,725,071**

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 2016 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 2016 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 2017 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 2016 that have been applied by Arafura Resources Limited. The 30 June 2016 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 2016.

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

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 two reportable business segments operate in Australia. Should transfer pricing between operating segments occur, this would be on an arm's length manner as with 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 2016 is as follows*:*

Note 2: Segment Information - Continued

	Project evaluation $	Exploration $	Unallocated $	Total $
Six Months to 31 Dec 2016				
Segment revenue	-	-	847,253	847,253
Segment expenditure	(356,711)	(195,658)	(2,211,463)	(2,763,832)
	(356,711)	(195,658)	(1,364,210)	(1,916,579)
Adjusted EBITDA	**-**	**-**	**(1,364,210)**	**(1,364,210)**
Capitalised expenditure	(356,711)	(195,658)	-	(552,369)
	(356,711)	(195,658)	(1,364,210)	(1,916,579)
Six Months to 31 Dec 2015				
Segment revenue	-	-	950,727	950,727
Segment expenditure	(29,335,531)	(248,291)	(2,353,187)	(31,937,009)
	(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)
Total segment assets				
31-Dec-16	74,406,463	13,449,436	10,443,619	98,299,518
30-Jun-16	74,054,655	13,253,779	12,408,646	99,717,080
Total segment liabilities				
31-Dec-16	359,364	17,834	690,644	1,067,842
30-Jun-16	325,830	186,791	710,231	1,222,852

Note 2: Segment Information - Continued

	Consolidated Entity Half Year	
	31-Dec-16 $	31-Dec-15 $
Adjusted EBITDA	**(1,364,210)**	**(29,134,439)**
Interest Received	132,954	186,858
Finance Costs	(2,774)	(3,410)
Depreciation & amortisation	(23,982)	(28,346)
Impairment on assets	(4,905)	-
Share option expense	(11,533)	(17,233)
Unrealised exchange rate (loss)/gain	366	13,343
Loss before income tax	**(1,274,084)**	**(28,983,227)**

Note 3: Revenue

	Consolidated Entity Half Year	
	31-Dec-16	**31-Dec-15**
	$	**$**
Revenue from continuing operations		
Other revenue		
Interest received	**132,954**	186,858
	132,954	186,858
Other Income		
Foreign exchange gain/(loss)	**366**	13,343
Non-capitalised portion of R&D Tax Incentive rebate	**847,253**	950,727
	847,619	964,070
Total Revenue	**980,573**	1,150,928

Note 4: Expenses

	Consolidated Entity Half Year	
	31-Dec-16 $	31-Dec-15 $
(a) Expenses		
Depreciation		
Depreciation – plant & equipment	**15,508**	19,872
Depreciation – leasehold improvements	**8,474**	8,474
Total depreciation	**23,982**	28,346
Finance costs		
Interest expense	**2,774**	3,410
Total finance costs	**2,774**	3,410
Other expenses		
Accounting and other professional fees	**73,065**	59,407
Audit fees	**23,056**	30,334
Consultants fees	**239,052**	188,151
Employee benefits expense	**1,132,668**	1,379,187
Insurance	**39,502**	38,318
Legal fees	**120,825**	79,706
Share-based employee benefits	**11,533**	17,233
Share registry and stock listing fees	**47,695**	42,240
Other expenses	**535,600**	535,844
Total other expenses	**2,222,996**	2,370,420
Impairment of assets		
Capitalised exploration expenditure	**4,905**	18,125
Capitalised evaluation expenditure	**-**	27,713,854
Total impairment of assets	**4,905**	27,731,979

Note 5: Deferred Exploration and Evaluation Expenditure

	Consolidated Entity Half Year	
	31-Dec-16 $	30-Jun-16 $
Exploration, evaluation and development costs carried forward		
Balance at beginning of period	**87,308,434**	114,923,897
Capitalised exploration expenditure	**195,658**	553,094
Capitalised evaluation expenditure [(a)]	**1,262,471**	3,368,644
Carrying value of disposed Mt Porter and Frances Creek tenements	**-**	(781,679)
Impairment of exploration expenditure	**(4,905)**	(513,266)
Impairment evaluation expenditure	**-**	(27,726,264)
R&D Tax Incentive rebate receipted against capitalised evaluation costs	**(905,760)**	(2,515,992)
Balance at end of period	**87,855,898**	87,308,434

(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.

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-16	30-Jun-16
	$	$
Current		
Provision for annual leave	**227,788**	202,187
Provision for lease incentive	**-**	76,041
Provision for restoration expenditure	**-**	182,450
	227,788	460,678
Non-current		
Provision for long service leave	**302,708**	276,127
	302,708	276,127

Note 7: Dividends

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

Note 8: 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 2016.

Note 9: Commitments

There have been no significant changes in commitments and contingencies since the release of the 30 June 2016 Financial Statements.

Note 10: Events occurring after the Reporting Date

On the 20th of February 2017, the Company announced it had received $3.6m in commitments from sophisticated and institutional investors from international and domestic markets such as North America and Hong Kong. A Share Purchase Plan has also been offered to existing shareholders (refer to ARU announcement on 27/02/17) with the aim to raise up to $2.5m in additional funds that will allow Arafura to advance its piloting programs that when complete will lead to detailed definition engineering, being the final engineering stage before a commercialisation decision can be made.

There have been no other subsequent matters after the reporting date.

In the Directors' opinion:

(a) the financial statements and notes set out on pages 9 to 21 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 2016 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
15 March 2017

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 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the 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 2016 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, 15 March 2017