ABN 22 080 933 455
Level 3, 263 Adelaide Terrace
Perth WA 6000
Australia

Arafura Resources Limited

Consolidated Interim Financial Report For the Half-Year Ended 31 December 2018

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 2018.

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[1]
- C Tonkin
- T Grose[2]
- Q Zhang
- G Lockyer
- M Southey

[1]Mr Kowalick retired as a Director on 14 February 2019.
[2]Mr Grose retired as a Director on 21 November 2018.

REVIEW OF OPERATIONS

During the six months ended 31 December 2018, Arafura incurred a net loss of $2,684,041 (2017: $1,529,480). The increase in the net loss for 31 December 2018 is largely attributed to increased activity associated with pilot programs and engineering for the Definitive Feasibility Study (DFS) for the Nolans Neodymium- Praseodymium (NdPr) Project.

CORPORATE

In August 2018, the Company successfully raised $4.2 million through a 1 for 4 accelerated non-renounceable entitlement offer which comprised of an institutional entitlement offers ($2.35m) and a retail entitlement offer ($1.85m). In December 2018, the Company raised a further $4.04 million through a Share Purchase Plan ($3m) and Top Up Placement ($1.04m).

The Company also received a $2.1 million tax refund for eligible research and development (R&D) expenditure spent on the design and operation of its flowsheet piloting program for the 30 June 2018 financial year. To date, the Company has received approximately $39.1 million in cash receipts from the R&D tax incentive.

These cash injections have been used to advance the Company's Nolans NdPr Project in the Northern Territory by carrying out technology development, engineering and piloting activities necessary to complete the DFS and for general working capital. The Company has continued to progress its DFS and work towards a final investment decision.

In October, the Company announced that it had signed a non-binding MoU with JingCi Material Science Co., Ltd (JingCi) for the supply of up to 900 tonnes per annum of NdPr oxide. JingCi, a Tier 1 Chinese manufacturer produces approximately 6,500 tonnes per annum or Neodymium Iron Boron (NdFeB) permanent magnets and operates under Hitachi Metals' worldwide patents. Importantly, the MoU contains provisions whereby JingCi may assist Arafura in project financing through the introduction of OEMs to the process. The Company continues to engage with a number of parties to further offtake discussion for NdPr oxide, other rare earth products and phosphoric acid.

ENVIRONMENTAL APPROVAL

The Company has received both state and federal environmental approvals during the calendar year, a key milestone towards achieving final investment decision on the Nolans project. In January 2018, the Nolans project was recommended for environmental approval by the Northern Territory Environment Protection Authority (NTEPA) Similarly, the Company received final environmental approval in May 2018 from the Federal Government, following a comprehensive assessment under the *Environmental Protection and Biodiversity Conservation Act*. The Company is currently preparing a Mining Management Plan (MMP), which will incorporate all environmental approval conditions as well as commitments made in the Environmental Impact Statement (EIS). Final project construction and operating approvals will be obtained when the Northern Territory Department of Primary Industry and Resources approves the MMP and issues a mining authorisation.

In November 2018, the Company announced its plans to build the Rare Earths Separation Plant at Nolans following extensive studies that considered environmental, economic and operational factors in various locations. This decision will enable process and configuration efficiencies as well as mitigate some of the project's operational risks. Risk assessments have indicated that these changes provide no additional environmental impact outside the project's (EIS). The Company has met with Northern Territory regulators to report these findings and additional work to be performed in advance of seeking a variation to the environmental approval and no issues have been identified.

NOLANS PILOT PROGRAM

The Nolans flowsheet piloting program is nearing completion, with the key objectives of the program being to acquire process performance, materials handling and mechanical engineering design data for the Nolans DFS. During the half year the Company advised that Phase 4 – Acid Bake of flowsheet piloting (Figure 1) for its Nolans NdPr project in the Northern Territory was complete following a thorough period of commissioning of all unit operations. The Acid Bake pilot was a key step in the process and successfully used paddle dryer technology to convert rare earth minerals in pre-leach residue (PLR) to water-soluble rare earth sulphate material. As part of the optimisation process, the Company collaborated with Bossong Engineering, SGS Australia, ANDRITZ Gouda and Curtin University to test all equipment in advance of construction and commissioning of the pilot plant. The pilot successfully ran over a four-day period at SGS Australia's metallurgical facility in Perth and processed a total of 2.0 tonnes of five different NdPr-enriched feeds which together cover a broad range of potential feed characteristics.

In November and December, the Company announced the completion of Phases 5 and 6 of the pilot, collectively termed Rare Earth Processing. The Phase 5 pilot ran continuously for five days processing feedstock from the Acid Bake pilot plant. The rare earth hydroxide precipitate produced from this pilot was then fed into the Phase 6 pilot continuously over seven days, producing large volumes of in-specification NdPr-enriched rare earth chloride liquor for use in the final phase of flowsheet piloting. A key feature of rare earth processing has been the removal of Cerium from the rare earth chloride feed into rare earth separation. The piloting has demonstrated that over 99.5% of the Cerium was rejected from the rare earth chloride. The Cerium rejection process is currently the subject of a patent application and provides the Company with significant downstream operation advantage over traditional separation circuits run by other rare earth companies as this process reduces the volume of material that feeds into rare earth separation. This allows the Company to have a smaller and more efficient separation plant which can focus on the production of the higher value rare earth products such as NdPr oxide.

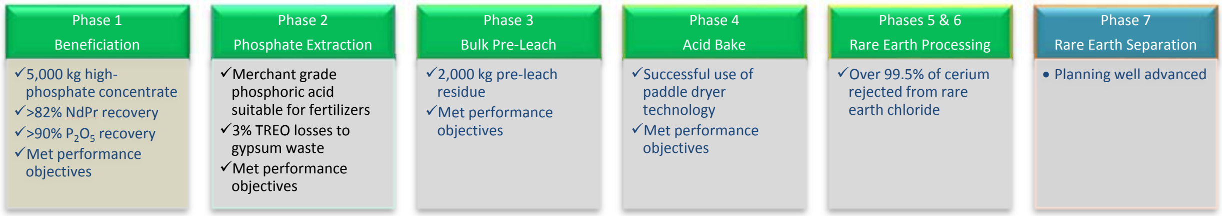

Figure 1. Nolans Pilot Program

EVENTS OCCURRING AFTER THE REPORTING DATE

The DFS results for the Nolans project were released to the market on 7 February 2019. The financial analysis in the DFS was based on NdPr price assumptions prepared by Roskill Consulting (Roskill) an independent commodity consultant. The base case assumption for the NdPr oxide selling price ranges from US$67 to US$90 per kilogram across the life of mine. In addition to the base case NdPr oxide price forecast, Roskill developed a high price forecast scenario which incorporates accelerated electrification of the automotive industry and the resulting higher demand for electric motor drivetrains, but also assumes reduced demand destruction in other applications.

The Roskill high case forecasts a significant uptick in NdPr oxide prices for 2029 and 2030. A conservative revised high case NdPr oxide scenario has been prepared by Arafura, capping the NdPr oxide price at the 2028 value of US$115.10 per kilogram from 2029 onwards. Financial outcomes for the base, high, revised high and low NdPr oxide pricing scenarios are shown in the table below. The NPV for the high case is A$1,882 M (US$1,309 M). The revised high case scenario produces an NPV of A$1,464 M (US$1,015 M). All scenarios, including the low scenario, produce strong EBITDA results.

Pricing Scenarios – Financial Analysis				
	Base A$m	High A$m	Revised High A$m	Low $Am
Sales Revenue (net of royalty & selling expenses)				
Rare Earth Products	539	840	692	391
MGA Phosphoric Acid	50	50	50	50
Total Revenue	**589**	**890**	**742**	**441**
Operating Expenditure	**212**	**212**	**212**	**212**
EBITDA	**377**	**678**	**531**	**229**
NPV_{10} after tax (million)	**729**	**1,882**	**1,464**	**79**
IRR after tax (%)	**17.43**	**25.40**	**23.80**	**10.91**

The information in this report that relates to Ore Reserves was announced on 7 February 2019. Arafura Resources confirms that it is not aware of any new information or data that materially affects the information included in the announcement of 7 February 2019 and that all material assumptions, technical parameters and modifying factors underpinning the estimates in the announcement of 7 February 2019 continue to apply and have not materially changed.

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 5.

Signed in accordance with a resolution of the Directors.

Gavin Lockyer
CEO & Managing Director

Perth
20 February 2019

Tel: +61 8 6382 4600
Fax: +61 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 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 review; and
2. 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, 20 February 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Notes	31-Dec-18 $	31-Dec-17 $
Revenue from continuing operations	3	**71,240**	137,602
Non-capitalised portion of R&D tax incentive rebate	3	**445,835**	659,567
Other income/ (loss)	3	**215**	(61)
Employee benefits expense	4	**(1,344,312)**	(1,125,679)
Other expenses	4	**(1,484,503)**	(1,149,326)
Depreciation and amortisation	4	**(109,286)**	(27,074)
Finance costs	4	**(3,063)**	(3,030)
Share based payments	4	**(212,154)**	(14,287)
Impairment of assets	4	**(48,013)**	(7,192)
Loss before income tax		**(2,684,041)**	**(1,529,480)**
Income tax benefit		-	-
Net (Loss) after income tax for the period		**(2,684,041)**	**(1,529,480)**
Total comprehensive (loss) for the half year attributable to owners of Arafura Resources Limited		**(2,684,041)**	**(1,529,480)**
		Cents	**Cents**
Loss per share attributable to owners of Arafura Resources Limited			
Basic loss per share		**(0.4)**	(0.3)
Diluted loss per share		**(0.4)**	(0.3)

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 2018

	Notes	31-Dec-18 $	30-Jun-18 $
CURRENT ASSETS			
Cash and cash equivalents		**9,045,052**	7,874,096
Trade and other receivables		**301,200**	209,704
Total Current Assets		**9,346,252**	**8,083,800**
NON-CURRENT ASSETS			
Property, plant and equipment		**378,652**	483,621
Deferred exploration and evaluation costs	5	**99,000,525**	93,158,071
Other assets		**231,378**	231,378
Total Non-Current Assets		**99,610,555**	**93,873,070**
TOTAL ASSETS		**108,956,807**	**101,956,870**
CURRENT LIABILITIES			
Trade and other payables		**3,490,912**	1,772,179
Provisions		**359,225**	383,055
Total Current Liabilities		**3,850,137**	**2,155,234**
NON-CURRENT LIABILITIES			
Provisions		**434,655**	350,995
Total Non-Current Liabilities		**434,655**	**350,995**
TOTAL LIABILITIES		**4,284,792**	**2,506,229**
NET ASSETS		**104,672,015**	**99,450,641**
EQUITY			
Contributed equity	6	**211,260,502**	203,567,241
Reserves		**11,887,617**	11,675,463
Accumulated losses		**(118,476,104)**	(115,792,063)
TOTAL EQUITY		**104,672,015**	**99,450,641**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2018

Consolidated	Contributed equity $	Equity reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2017	**200,590,837**	**11,650,663**	**(110,676,651)**	**101,564,849**
Loss for the period	-	-	(1,529,480)	(1,529,480)
Total Comprehensive Loss for the period	**-**	**-**	**(1,529,480)**	**(1,529,480)**
Cost of Share Based Options	-	14,289	-	14,289
Contributions of equity, net of transaction costs and tax	2,976,405	-	-	2,976,405
Balance at 31 Dec 2017	**203,567,242**	**11,664,952**	**(112,206,131)**	**103,026,063**
Balance at 1 July 2018	**203,567,241**	**11,675,463**	**(115,792,063)**	**99,450,641**
Loss for the period	-	-	(2,684,041)	(2,684,041)
Total Comprehensive Loss for the period			**(2,684,041)**	**(2,684,041)**
Cost of Share Based Options	-	212,154	-	212,154
Contributions of equity, net of transaction costs and tax	7,693,261	-	-	7,693,261
Balance at 31 Dec 2018	**211,260,502**	**11,887,617**	**(118,476,104)**	**104,672,015**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
AS AT 31 DECEMBER 2018

	31-Dec-18	31-Dec-17
	$	$
Cash flows from operating activities		
Payments to suppliers and employees	**(3,232,863)**	(2,132,672)
Interest received	**83,390**	146,625
R&D Incentive rebate - non-capitalised portion	**445,835**	659,567
Interest paid	**(3,063)**	(3,030)
Net cash (outflow) from operating activities	**(2,706,701)**	**(1,329,510)**
Cash flows from investing activities		
Payment for property, plant and equipment	**(4,317)**	(145,300)
Payments for exploration and evaluation	**(5,473,462)**	(2,485,559)
Proceeds from sale of tenements	**-**	31,460
R&D Incentive rebate - capitalised portion	**1,661,960**	1,173,985
Net cash (outflow) from investing activities	**(3,815,819)**	**(1,425,414)**
Cash flows from financing activities		
Proceeds from share issue	**8,346,697**	3,174,550
Capital raising expenses	**(653,436)**	(198,146)
Net cash inflow from financing activities	**7,693,261**	**2,976,404**
Net increase/(decrease) in cash and cash equivalents	**1,170,741**	**221,480**
Cash at the beginning of the financial year	**7,874,096**	12,471,662
Effects of exchange rate changes on cash and cash equivalents	**215**	(61)
Cash and cash equivalents at the end of the financial year	**9,045,052**	**12,693,081**

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

BASIS OF PREPARATION

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2018 has been prepared in accordance with Accounting Standard *AASB 134 Interim Financial Reports and the Corporations Act 2001*.

The interim report does not include all the notes of the type normally included in the annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2018 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.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

NEW AND AMENDED STANDARDS ADOPTED

(a) New and amended standards

A number of new or amended standards became applicable for the current reporting period and Arafura Resources Limited have reviewed its accounting policies in light of these standards:

- AASB 9 Financial Instruments, and
- AASB 15 Revenue from Contracts with Customers.

The above accounting standards have no impact on adoption to these financial statements.

(b) Impact of standards issued but not yet applied by the entity

AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. Arafura Resources Limited does not intend to adopt the standard before its effective date.

GOING CONCERN

For the period ended 31 December 2018, the company recognised a loss before tax of $2.7 million and had working capital of $5.5 million. For the period, the company had cash outflows from operating activities of $2.7 million, cash outflows from investing activities of $3.8m, cash inflows from financing activities of $7.7m, and held cash of $9m.

The company has substantially completed DFS on the project and currently has no further significant costs in this regard. The group is currently considering funding options to move the project into the development stage.

Based on the business forecasts and associated cash flow, the Group has sufficient working capital to fund its mandatory obligations for 12 months from the date of this report. There are no indicators suggesting any going concern issues and therefore no significant doubt regarding the entity's ability to continue as a going concern.

NOTE 2: SEGMENT INFORMATION

The company has identified its operating segments 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 half-year report.

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

NOTE 3: REVENUE

	Consolidated Entity Half Year	
	31-Dec-18	**31-Dec-17**
	$	**$**
Revenue from continuing operations		
Other revenue		
Interest received	**71,240**	137,602
	71,240	**137,602**
Other Income		
Foreign exchange gain/(loss)	**215**	(61)
Non-capitalised portion of R&D Tax Incentive rebate	**445,835**	659,567
	446,050	**659,506**
Total Revenue	**517,290**	**797,108**

NOTE 4: EXPENSES

	Consolidated Entity Half Year	
	31-Dec-18	**31-Dec-17**
	$	**$**
Expenses		
Depreciation		
Depreciation – plant & equipment	**103,922**	18,600
Depreciation – leasehold improvements	**5,364**	8,474
Total depreciation	**109,286**	**27,074**
Finance costs		
Interest expense	**3,063**	3,030
Total finance costs	**3,063**	**3,030**

Other expenses	**$**	**$**
Accounting and other professional fees	**55,976**	77,115
Audit fees	**19,000**	19,035
Consultants fees	**560,497**	258,179
Employee benefits expense	**1,344,312**	1,111,390
Insurance	**49,456**	39,517
Legal fees	**155,897**	113,889
Share-based employee benefits	**212,154**	14,287
Share registry and stock listing fees	**48,191**	66,576
Other expenses	**595,486**	589,304
Total other expenses	**3,040,969**	**2,289,292**
Impairment of assets		
Capitalised exploration expenditure	**48,013**	7,192
Total impairment of assets	**48,013**	**7,192**

NOTE 5: DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

	Consolidated Entity Half Year	
	31-Dec-18	**30-Jun-18**
	$	**$**
Exploration and evaluation costs carried forward		
Balance at beginning of period	**93,158,071**	89,751,800
Capitalised exploration expenditure	**1,099,917**	2,131,216
Capitalised evaluation expenditure [(a)]	**6,452,510**	3,679,734
Impairment of exploration expenditure	**(48,013)**	(1,230,693)
R&D Tax Incentive rebate receipted against capitalised evaluation costs	**(1,661,960)**	(1,173,986)
Balance at end of period	**99,000,525**	**93,158,071**

(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: EQUITY – CONTRIBUTED EQUITY

	31 December 2018 Shares	30 June 2018 Shares	31 December 2018 $	30 June 2018 $
Share capital				
Fully Paid Ordinary Shares	**721,403,114**	575,755,949	**211,260,502**	203,567,241

Movements in ordinary share capital over the past two and a half 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
04/04/2017	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
01/11/2017	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**
23/08/2018	Rights Offer (Institutional)	29,375,000	0.08	2,350,000
30/09/2018	Rights Offer (Retail)	23,118,994	0.08	1,849,520
30/09/2018	Rights Offer (Shortfall)	1,345,967	0.08	107,677
14/12/2018	Share Purchase Plan	68,398,112	0.044	3,009,500
20/12/2018	Top Up Placement	23,409,092	0.044	1,030,000
	Capital Raising Costs			(653,436)
31-Dec-18	**Balance**	**721,403,114**		**211,260,502**

NOTE 7: RELATED PARTY TRANSACTIONS

During the period key management personnel Gavin Lockyer, Peter Sherrington, Richard Brescianini, Brian Fowler, Lloyd Kaiser and Stewart Watkins were issued with options and performance rights as detailed below.

	Number of Performance Rights	Number of Options
Gavin Lockyer	3,000,000	4,750,000
Peter Sherrington	1,450,000	2,650,000
Richard Brescianini	1,000,000	2,350,000
Brian Fowler	1,000,000	2,200,000
Lloyd Kaiser	1,000,000	2,250,000
Stewart Watkins	1,350,000	3,375,000
TOTAL	**8,800,000**	**17,575,000**

There were no other related party transactions, other than those noted below during the half-year other than payments to key management personnel which were in line with 30 June 2018.

1.1.1 Options

On 31 July 2018, the Board approved the issue of 14,605,000 options to Key Management Personal ("KMPs") and other employees, and 4,750,000 to the Managing Director (subsequently approved by shareholders at the 2018 annual general meeting) under the Arafura Resources Limited Share Option Plan. These options vest annually in three equal tranches over 3 years, beginning on 1 July 2019 and lapse where an individual ceases to be an employee. The company has internally measured the fair value of options granted by adopting a Black-Scholes pricing model. The options are probability weighted to be 80%, 70% and 60% for Tranches 1 to 3 respectively as management's best estimate on the portion that will vest.

The fair value of the options issued to employees and the Managing Director is $733,200 and $133,063, respectively.

1.1.2 Performance rights

On 19 September 2018, the Board approved a total of 10,000,000 performance rights to be offered to KMP and other employees, and the managing director under the Arafura Resources Limited Performance Rights Plan. The Managing Director was subsequently granted 3,000,000 performance rights at the annual general meeting on 22 November 2018. The performance rights are issued in three equal tranches and will vest 24 months after the completion of the performance hurdles being:

1. Tranche 1- completion of the DFS within 25% or better of US$680m capital cost and $35/kg NdPr operating cost (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 terms acceptable to the Board to enable project investment decision.

The company has fair valued the performance rights granted using the share price at grant date. The performance rights are probability weighted to be 70%, 60% and 50% for Tranches 1 to 3 respectively as management's best estimate on the portion that will vest.

The fair value of the performance rights issued to employees and the Managing Director is $305,305 and $113,400, respectively.

NOTE 8: COMMITMENTS

There have been no significant changes in commitments and contingencies since the release of the 30 June 2018 Financial Statements.

NOTE 9: EVENTS OCCURING AFTER THE REPORTING DATE

On 7 February the Company announced the release of the results for the DFS for the Nolans NdPr Project.

On the 14 February 2019, Ian Kowalick announced his retirement from the Board and Mark Southey was appointed as Chairman of the Board.

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 6-14 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 2018 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
20 February 2019

Tel: +61 8 6382 4600
Fax: +61 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

Conclusion

We have reviewed the half-year financial report of Arafura Resources Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 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 half-year then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

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 the Group is not in accordance with the Corporations Act 2001 including:

(i) Giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

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 Group's financial position as at 31 December 2018 and its financial 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 the Group, 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 the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit (WA) Pty Ltd

BDO

J Prue

Jarrad Prue

Director

Perth, 20 February 2019