



ANNUAL REPORT 2020

30 June 2020

[Arafura Resources Limited](#) | ABN 22 080 933 455



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Directors	Mark Southey Chairman & Non-Executive Director Gavin Lockyer Managing Director & Chief Executive Officer Chris Tonkin Non-Executive Director Quansheng Zhang Non-Executive Director Cathy Moises Non-Executive Director
Company Secretary	Peter Sherrington Catherine Huynh
Annual General Meeting to be held at	BDO Audit (WA) Pty Ltd 38 Station Street Subiaco WA 6008
Time	10:00am (WST)
Date	Thursday, 22 October 2020
Closing date of director elections	2 September 2020 Nominations must be received at Company's registered office by 5:00pm (AWST) on this day.
Principal registered office in Australia	Level 6, 432 Murray Street Perth WA 6000
Share Registry	Link Market Service Ltd QV1 Building, Level 12, 250 St Georges Terrace Perth WA 6000
Auditors	BDO Audit (WA) Pty Ltd 38 Station Street Subiaco WA 6008
Solicitors	Johnson Winter and Slattery Level 4, 167 St Georges Terrace Perth WA 6000
Bankers	Westpac Banking Corporation Tower 2, Level 3 123 St Georges Terrace Perth WA 6000
Stock Exchange Listings	Arafura Resources Limited shares are listed on the Australian Stock Exchange under the ticker code "ARU".
Website	www.arultd.com

Dear Shareholder,

On behalf of your Board of Directors, it is my pleasure to present the 2020 Annual Report of Arafura Resources Ltd.

During FY20 Arafura continued to progress the commercialisation of our flagship Nolans NdPr Project. Since the last Annual Report the value of the Project has been further enhanced, with a greater mine life, lower operating costs and outstanding technical validation through a completed Pilot Production program.

The Managing Director, Gavin Lockyer has a comprehensive update on the operational progress made at Nolans but I would like to take this opportunity to make some broader comments.

The Impact of COVID

With respect to the impact of the COVID pandemic on the business the Company was able to transition to a 'working from home' routine quite seamlessly. Our staff and contractors remained productive and, more importantly, safe. The practical impacts were felt most acutely on two fronts, firstly in delaying our negotiations for the Native Title Agreement – now successfully concluded – and in impacting on customer engagement.

The blanket restriction on travel made it impossible for Gavin and his team to meet personally with customers on scheduled marketing trips to Japan, South Korea and China. Video-conferencing allowed the team to stay in contact with potential customers and we hope to be able to pursue this more aggressively in FY21 as restrictions abate.

Outside of Arafura, the global COVID crisis had a starkly negative impact on most commodity markets with the base metals complex falling almost 25%. The NdPr did not escape unscathed but the decline was less severe, however, in the order of 10%. Pleasingly, the impact was short-lived and by the end of the Financial Year prices had recovered to pre-crisis levels and the outlook for NdPr remains strong. The NdPr supply crisis that we and independent commentators expect still looms large. Arafura's Nolans Project stands ready to fill the gap.

NdPr Market

The trends in the NdPr market are powerful and as we have often stated irreversible – not even COVID can stop it. In fact, in the view of some forecasters such as Adamas Intelligence it is possible the crisis may even accelerate demand through Government stimulus packages for economic recovery. We are already seeing 'green driven' recovery plans announced by European Governments in particular where vast investment is planned in renewable energy - including wind power which is a key consumer of permanent magnets utilising NdPr. The growth in wind power is likely to be one of the key investment themes of the coming decade and commodity forecaster CRU expects NdPr demand in this sector to more than double during the 2020s irrespective of EV trends.

On the EV front automakers are accelerating their EV launch plans, partly to comply with increasingly stringent regulations in Europe and China. COVID-19 will delay some of these, but by 2022 there will be over 500 different EV models available globally. A new report from Adamas Intelligence, "Electric Growth: EVs, Motors and Motor Materials", forecasts that global annual EV sales will increase from 4.3 million units last year to 12.5 million in 2025 and 32.0 million in 2030. With upwards of 80% of all EVs projected to use permanent magnet

synchronous motors (PMSMs) in the years ahead, the rapid rise in EV sales will fuel a 350% increase in demand for rare earths used in EV traction motors between 2018 and 2025, and a further 127% increase in demand between 2025 and 2030, according to the forecast.

Serious political forces are also at play in the NdPr sector as well which are supportive of Arafura's positive outlook. End-use consumers will increasingly need to think strategically about long-term NdPr sourcing. CRU expects global NdPr demand growth to reach at least 6-7% CAGR in the 2020s, but supply of NdPr as well as magnets is still dominated by China, and governed by policy and production quotas. China could severely limit the rest of the world's production of EVs, hybrid vehicles and wind turbines, by reserving the use of Chinese domestically produced rare earths for the Chinese domestic manufacturing industries or for political objectives. China's recent move to restrict rare earths supplies to Lockheed, the largest arms manufacturer in the US highlights the market's inherent supply risk.

The stakes are high for NdPr consumers. Despite China's current predominance in NdPr in particular, CRU recently noted: "Our analysis indicates that it will struggle to meet significant global sustained demand growth." Not surprisingly, global industries and governments are now, more than ever, actively seeking to diversify beyond China to ensure material availability and supply chain certainty to support the anticipated surge in electric vehicle production and other forms of electrification. In Arafura's view this is intensifying efforts to create a non-Chinese supply chain.

Tentative steps are under way in the US, Australia and the EU to bolster security of supply of rare earths. Japan has been pursuing this policy for years but more recently the European Commission began working on a raw materials strategy that aims to wean domestic industries off their dependence on China. In November 2019, the Australian and US Governments signed an agreement, which mandated both nations' geological agencies to work together to assess the potential for new supply. Federal minister for Resources and Northern Australia Matt Canavan stated in January 2020 at the opening of the Critical Minerals Facilitation Office in Canberra:

"Australia has abundant reserves of critical minerals and rare earths and the Government is committed to developing world-leading projects which improve diversity of supply in the global markets."

Financing Strategy

Despite the compelling supply and demand outlook as well as the complex political overlay the NdPr markets have thus far failed to respond in terms of sustained price rises. This has negatively impacted the ability of project proponents to attract material capital from traditional sources. It has been eight years now since a new producer entered the market. This is highly unusual and aside from possibly the uranium sector, almost unheard of in commodity markets. In our view Nolans sits at the intersection of a compelling supply and demand dynamic, a global desire for greener technologies which is rapidly expanding the wind generation market opportunity and finally, geopolitical risk. It's our job to leverage this dynamic to our maximum advantage, particularly with regards to financing Nolans.

In parallel with negotiating additional offtakes Arafura is well advanced in exploring both types of Export Credit Agency (ECA) support with the ultimate goal of unlocking capital. Feedback from the Company's project funding engagement affirms the view that Nolans, as an Australian domiciled NdPr project, is a strategic geopolitical asset. Arafura is working to leverage this significant attribute and its market sounding has identified close alignment with the ECA funding mandates of enabling EV manufacturing and renewable energy sector growth.

CHAIRMAN'S REPORT

Augmenting this are Arafura's ongoing discussions with other Australian Government related development finance providers such as the Northern Australia Infrastructure Facility (NAIF) and the Clean Energy Finance Corporation (CEFC). We see these combined efforts as the gateway to more traditional sources of debt capital and ultimately equity funding and or possibly a partial sell down of the Project once Nolans' value is appropriately recognised.

With all this said, I will end my commentary with one final insight from CRU's report, "Why rare earths are vital for a low carbon economy", dated November 2019:

"CRU expects the market to record (supply) deficits in the order of 13-15% of prevailing demand in the early 2020s, significant for any commodity market. As such we see prices for magnet metals rising sustainably in this period, as relatively few western producers have projects ready for financing and construction prior to 2025"

Happily, Nolans is one of those projects.

In closing, I would like to thank my fellow Directors for their ongoing counsel. I would also like to acknowledge the great work of Gavin Lockyer and his team as they continued to deliver on the Board's strategy this year and executed on several key pieces of business in FY20 which have undoubtedly boosted the value of this strategic asset. With the Nolans Mining Lease now in place project funding remains the key outstanding objective in the coming year and the Company is pursuing this with a clear strategy and high expectations.



Mark Southey

Chairman

MANAGING DIRECTOR'S REVIEW

Following a very eventful 2019, 2020 saw momentum continue at the Nolans NdPr Project, albeit with an unwelcome interruption by the COVID pandemic. I am pleased to report, however, the project's fundamentals are more robust; interest from potential customers has continued; and with key agreements now in place the Project is on the cusp of being 'shovel ready', subject only to finance. In our opinion, Nolans is now the only new NdPr oxide project in Australia with all approvals in place to deliver advanced materials into the critical minerals supply chain.

Native Title Agreement & Mining Leases Secured

Late in the Financial Year the Company executed the Native Title Agreement (NTA) for the Nolans Project with native title holders and the Central Land Council (CLC). This has been a key objective of the Company for some time and progress had been temporarily slowed by the practical impacts on travel of the COVID virus. On behalf of the Company, I would like to thank the CLC and the prescribed body corporates representing the native title holders (being the Kwaty Aboriginal Corporation RNTBC, Irretyepwenty Ywentent Pwert Aboriginal Corporation RNTBC and Alherramp Ilewerr Mamp Arrangkey Tywerl Aboriginal Corporation RNTBC).

Under the terms of the NTA, the native title holders give their consent to the grant of the primary mineral lease, ML 26659, ancillary mineral leases, MLs 30702 to 30704, 32411 to 32416 and related access authorities. These mineral leases host the mine, process plant, tailings and process residues containment facilities, accommodation village, borefield and the infrastructure elements of the Nolans operation.

The NTA was therefore a vital condition precedent for Nolans. Specifically, the Mineral Leases covering the Project could not be granted without it. I am pleased to report that shortly after the end of the Financial Year, the Northern Territory Government granted the required Mineral Leases for Nolans for an initial term of 25 years with allowance for multiple renewals. The grant process confers on Arafura the exclusive right to mine and to occupy the MLs to construct and operate the Nolans Project. This is the culmination of years of work by the Arafura team and was a proud day for the Company.

With the Mining Leases now in place we are that much closer to a Production Commitment. Securing our development tenure is a critical catalyst to further advance our engagement with Governments as well as potential offtake, ECA and other project funding partners. With all environmental and regulatory approvals, the Project is now moving through the execution readiness phase and into Front End Engineering and Design (FEED). Completion of FEED and securing financing are the key objectives in the coming year.

NdPr Oxide Offtakes Increased

Finance will require, among other things, customer offtakes. The company continued to execute on its strategy to secure offtakes covering 100% of Nolans' planned 4,357 tonnes p.a. of NdPr output. In September 2019 the Company announced its second Memorandum of Understanding (MoU) for NdPr oxide for approximately 900 tonnes p.a. and signed with Baotou Tianhe Magnetics Technology Co (Tianhe Magnets). Tianhe Magnets is one of China's leading NdFeB permanent magnet producers. Its customer base includes several globally recognised Western world companies that use magnets in EV/HEV motors, wind power generators, consumer electronics, household appliances, medical devices, and aerospace applications. Taken together with Arafura's existing MoU signed with JingCi Materials Science Co. Ltd, the Tianhe agreement means Project now has MoUs in place covering over 40% of planned NdPr oxide output.

Looking ahead, the Company is extremely focused on completing agreements for the remaining 60% of Nolans production and progressing current MoUs. The process of sending sample NdPr oxide to JingCi and Tianhe as well as to a Japanese magnet manufacturer for pre-qualification and verification was interrupted by COVID related issues but remains a key near term objective. With respect to the project's NdPr oxide output which remains unspoken for, the Company is engaging with customers not aligned with China's vertically integrated "Made in China 2025" strategy, specifically in Japan, South Korea, Europe and the US .

Ore Reserves Boosted

In March 2020 we announced a 54% increase in the Ore Reserves at Nolans to 29.5mt tonnes at an NdPr enrichment of 26.4%. Using the processing design envelope from the DFS the Ore Reserves support production over 33 years, an increase of 10 years over the DFS base case.

In addition to the updated Ore Reserves, our consultants also prepared a production schedule based on the mining inventory, which includes some of the Project's Inferred Mineral Resources, predominately in the later years of mining and processing. This mining inventory consists of approximately 39.9 Mt. Scheduling of the mining inventory, with some minor changes to the design envelope of the process plant, provides far superior financial outcomes over those delivered in the DFS base case. The mining inventory production schedule supports production over 39 years of 4,325 tonnes p.a of NdPr oxide at an operating cost of less than US\$24/kg of NdPr oxide (net of phosphoric acid by-product credit) – a greater than 12% reduction vs the DFS. The decline in operating costs cements Arafura as one of the lowest-cost NdPr producers in the world.

The good news does not stop there though. The Company is of the view that there is yet further potential for additional ore at Nolans. In its mid-year drilling program, which included four deep holes the Company intersected encouraging mineralisation. Three of the four holes intersected thick zones of rare earths mineralization up to ~200 metres vertically below the planned final mining presented in the DFS. Analysis of these zones confirmed that the mineralized material types and assay grades are consistent with those that constitute the Mineral Resources. On this basis the Company considers there to be reasonable potential to increase the Mineral Resources at depth in the North and Southeast Zones of Nolans.

The increase in Ore Reserves and mining inventory attests to the long-term potential of the Nolans Project and when taken in conjunction with the deep drilling results, reinforces its standing as a world class NdPr development opportunity.

Pilot Program Completed

During the year, the Company completed the final phase of its seven-phase flowsheet Pilot Program. The Phase 7 - Rare Earth Separation pilot like the prior six phases was an unqualified success. Phase 7 proved that ore feed from Nolans could be separated into NdPr and SEG-HRE products that align with the raw material specifications of customers. Samples of the finished product are now available for assessment and feedback by potential customers.

The capability of rare earth projects to produce high-purity separated NdPr oxide has gained prominence in recent times as end users, component manufacturers, financiers and governments attach greater importance to the provenance and traceability of raw materials feeding, and the diversification of, the NdFeB magnet supply chain. Arafura has now demonstrated its capability to be a reliable long-term supplier of downstream NdPr oxide and to assist target customer objectives for supply diversification. We expect that any project

which shows the ability to separate and deliver high purity NdPr and to do so from stable jurisdictions such as Australia to be particularly sought after by customers.

Moving to a Production Commitment

Progress on the pre-front end engineering and design (pre-FEED) activities are largely complete. These pre-FEED activities are aimed at finalising the basis of design, design specifications and philosophies along with finalising Arafura's overall project requirements in preparation for the early contractor involvement (ECI) phase of project delivery.

Final delivery and review of the pre-FEED documentation, including updated process flow diagrams incorporating all the information and knowledge gained from the now completed flowsheet piloting program, is anticipated to be complete in FY21. The integrated project management team (IPMT), which includes KBR and Wave International personnel, has mobilised into Arafura's Perth office.

In the final quarter of FY20, the Company selected a joint venture between Clough and Worley (CWJV) as the preferred contractor for the project's hydrometallurgical plant. The CWJV brings together the design and delivery expertise of two tier-one, internationally recognised project design and delivery companies with expertise in complex processing plant design and construction. Clough has a recognised track record of large scale project delivery in the resources, energy, and infrastructure sectors with recent projects including the South Flank Ore Handling Plant for BHP and the Koodaideri Northern Rail Formation for Rio Tinto Iron Ore. Clough will lead the project management, procurement and construction aspects of the project. Worley has extensive experience in complex hydrometallurgical plant design and will lead the engineering effort on the project.

Subject to financing, Project Commitment is looming fast...!

As shareholders can appreciate, FY20 has been a big year for the Company. I would like to extend my thanks to my Executive team for all their efforts during an unusual period in the Company's and Australia's history. I also extend my thanks to the Board whose advice and guidance has proved invaluable. With the work we have completed in FY20 we have all brought this project to the cusp of financing and it is our Number One priority for the coming year.

Finally, I confidently reiterate my previously published claim: "I challenge anyone to find a better, fully permitted, fully costed NdPr-focused project outside China. It meets all the criteria to be a long term, sustainable supplier of critical minerals into clean energy technologies, and will deliver intergenerational benefits in a part of Australia that is challenged by limited opportunities for genuine economic development."



Gavin Lockyer

Managing Director

Nolans NdPr Project

Execution Readiness

Pre-front end engineering and design (**pre-FEED**) activities, which were aimed at finalising the basis of design, design specifications and philosophies in preparation for early contractor involvement (**ECI**) phase have progressed during the year and were largely complete by the end of June with Hatch Pty Ltd.

Globally recognised tier-one project management consultancy KBR was awarded the integrated project management team (**IPMT**) contract for the delivery of the project. The IPMT, which includes personnel from KBR and sub-consultant Wave International Pty Ltd, has mobilised into Arafura's Perth office and is working to finalise key execution strategies, plans and processes in preparation for the ECI phase of the project as well as continuing with preparation for tendering of key contracts, including those for the beneficiation, hydrometallurgical and sulphuric acid plants.

Early Engineering Works

The Company has selected a joint venture between Clough and Worley (**CWJV**) as the preferred contractor for the project's hydrometallurgical plant. The CWJV brings together the design and delivery expertise of two tier-one, internationally recognised project design and delivery companies with expertise in complex processing plant design and construction.

The scope of work for the hydrometallurgical plant incorporates the core of the Nolans processing facilities including phosphate extraction, phosphoric acid production, rare earth extraction, rare earth purification and rare earth separation. In addition, the hydrometallurgical plant also incorporates the shared process plant services, utilities and reagents handling.

Ore Reserves and Life of Mine Update

The Company completed an updated Ore Reserves estimate based on revised mine design and scheduling to reflect an updated geometallurgical model, and a Life of Mine (**LOM**) production schedule based on the mining inventory which includes some of the project's Inferred Resources.

Key highlights of the Ore Reserves and LOM schedule update include:

- 54% increase in Ore Reserves to 29.5 million tonnes
- Ore Reserves now support 33 years of production, an increase of 10 years on the definitive feasibility study (DFS) base case
- LOM schedule based on mining inventory of 39.9 million tonnes supports 39 years of production
- Significant reduction in OPEX for mining inventory schedule to US\$23.71/kg of NdPr oxide.

Offtake and Funding

The Company continued to progress its engagement with key advisor groups and Export Credit Agencies (**ECA**) to advance the initiatives required to secure Nolans Project funding. The Company met with groups in Europe, Japan, South Korea and the U.S to understand debt funding opportunities that will likely be linked with NdPr supply diversification objectives being pursued across multiple jurisdictions.

Recent geopolitical events including the China–US trade war and COVID-19 has seen economies reassess their supply chain risk for critical raw materials. Arafura believes the government mandated ECAs through direct loans and guarantees will be central to COVID-19 stimulus measures which have a significant focus on critical material supply chains. Continued engagement with key advisor groups and ECAs supports the view that the strategic nature of NdPr, the alignment with clean energy applications and the specialised capital equipment requirements of the Nolans Project is a good fit with the mandate of several ECAs.

The Company worked collaboratively with Talaxis Ltd to examine a strategic equity investment strategy, product offtake opportunities and assist with market engagement for the advancement of the Nolans Project. The work was formalised through the execution of a Capital Markets, Marketing and Logistics advisory agreement.

In parallel with funding discussions, the Company advanced its customer engagement and offtake negotiations with groups in Japan, Europe, South Korea and China. The Company's NdPr marketing strategy is underpinned by targeting customers in the high growth NdFeB permanent magnet supply chain for electric vehicles, the clean energy economy and factory automation. Aligned with this strategy, the Company executed a second Memorandum of Understanding with Baotou Tianhe Magnetics Technology Co., Ltd (Tianhe Magnetics), one of China's leading manufacturers of NdFeB permanent magnets.

Domestic Stakeholder Engagement

Native Title Agreement

The Native Title Agreement (**NTA**) for the Nolans Project was executed in June between Arafura Rare Earths Pty Ltd (ARE – a wholly owned subsidiary of Arafura Resources), the Central Land Council (**CLC**) and key prescribed body corporate representatives of the project's Anmatyerr native title holders. Under the terms of the NTA, ARE commits to providing employment, training and business opportunities to local Aboriginal people, acknowledges its environmental commitments and duty to protect cultural sites, and provides for compensation payments for the benefit of native titles holders in recognition of the impacts of the project on their native title rights and interests.

Development Tenure

Execution of the NTA enabled the grant of Arafura's key development tenure for the project: Mineral Lease (ML 26659) over the Nolans Bore mineral resource as well as the three ancillary MLs (30702-04) which host much of the supporting infrastructure. The grant of all four MLs, which confers to ARE the exclusive right to mine and occupy the tenure to construct and operate the project, was effected by the Northern Territory Minister for Primary Industry and Resources for an initial term of 25 years, with multiple renewal periods possible and agreed under the NTA.

Sustainability Review

As part of the Company's focus on sustainability, a review and gap analysis of its sustainability policies, plans, and procedures has been initiated with sustainability specialists from KBR. The aims of the review and gap analysis are to:

- Review current policies, plans and procedures against international principles and standards such as Equator principles, International Finance Corporation's performance standards on environmental and social sustainability, and United Nations sustainable development goals (**UNSDG**).
- Develop work programs across one, two, five and ten-year horizons to align the Company's activities with more sustainable business outcomes, based on environmental, social and governance (**ESG**) considerations.

Other

The Company has completed two important documents for the delivery of the Nolans Project, being an Indigenous Engagement Strategy and an Economic Impact and Cost Benefit Analysis. These key documents will form part of the investment proposal to the Northern Australia Infrastructure Facility (**NAIF**). These documents will also be incorporated in the Territory Benefit Plan and the Australian Industry Participation Plan. Additionally, these documents have been incorporated into the Territory Economic Reconstruction Commission (**TERC**) submission to provide recommendations to the Chief Minister and Northern Territory Government on the potential opportunities that can assist the Territory's economic recovery from COVID-19.

Technology

The capability of rare earth projects to produce high-purity separated NdPr oxide has gained prominence in recent times as end users, component manufacturers, financiers and governments attach greater importance to the provenance and traceability of raw materials feeding, and the diversification of, the NdFeB magnet supply chain.

The Company's successful completion of the seventh and final stage of its flowsheet piloting program, Rare Earth Separation, at ANSTO during the year is in lock step with these sustainability outcomes. The program produced separated NdPr oxide (NdPr/TREE >99.9%) and SEG-HRE carbonate (SEG-HRE/TREE >99.5%) products. Product samples have been dispatched to potential customers across the globe for product qualification purposes.

Exploration

Deep Drilling at Nolans Bore

The Company completed a nine-hole diamond core/reverse circulation (RC) drilling program at Nolans Bore which included four deep exploration holes targeting down-dip extensions to Indicated and Inferred Resources in the deposit's North and Southeast Zones. Three of the four holes intersected thick zones of rare earths mineralization up to about 200 metres vertically below the planned final mining pit. The Company considers there to be reasonable potential to increase the project's Mineral Resources at depth in the North and Southeast Zones.

The best intercepts from the three holes were as follows:

- 46.76 m @ 1.5% TREO and 7% P2O5 from 316.72 m in hole NBRD1102 (Southeast Zone)
- 75.68 m @ 2.8% TREO and 11% P2O5 from 364.37 m in hole NBRD1106 (North Zone)
- 65.15 m @ 1.5% TREO and 6% P2O5 from 422.88 m in hole NBRD1109 (North Zone).

Bonya Joint Venture Maiden Mineral Resources

Arafura holds a 60% interest in the Bonya Joint Venture (JV) over ELs 29701 and 32167, located 280 kilometres north-east of Alice Springs. Thor Mining PLC (Thor) holds a 40% interest and is the operator and manager of the JV.

Drilling of 38 RC holes at the White Violet and Samarkand tungsten prospects during 2019 allowed for Mineral Resources to be estimated for the first time. Mineralization outcrops and remains open at depth at both prospects, and Samarkand shows potential for strike extension to the copper mineralization. Assay highlights from drilling include:

- 12 m @ 0.67% WO₃ from 46 m in hole 19RC021
- 29 m @ 0.70% WO₃ from 81 m, including 13 m @ 1.13% WO₃ from 91 m in hole 19RC022
- 12 m @ 0.77% Cu from 22 m; 7 m @ 1.23% Cu from 37 m; 9 m @ 0.74% WO₃ from 64 m in hole 19RC030
- 23 m @ 0.58% WO₃ from surface, including 6 m at 1.7% WO₃ from surface in hole 19RC035
- 8 m @ 0.74% WO₃ from 65 m, including 2 m at 2.48% WO₃ from 69 m in hole 19RC037

Compliance Statements

Nolans Project Exploration Results, Mineral Resources and Ore Reserves

The information in this report that relates to Exploration Results was released in an announcement dated 9 March 2020 (Drilling Confirms Deep Extensions to Mineralization) and was completed in accordance with the guidelines of the JORC Code (2012). The information in this report that relates to Mineral Resources was released in an ASX announcement dated 7 June 2017 (Detailed Resource Assessment Completed) and was completed in accordance with the guidelines of the JORC Code (2012). The information in this report that relates to Ore Reserves was released in an ASX announcement dated 16 March 2020 (Major Increase in Mine Life for the Nolans Project) and was completed in accordance with the guidelines of the JORC Code (2012).

Arafura confirms that it is not aware of any new information or data that materially affects the information included in these original market announcements and that all material assumptions and technical parameters underpinning the estimates in the original market announcements continue to apply and have not materially changed. Arafura confirms that the form and context in which the Competent Person's findings are represented have not been materially modified from the original market announcements.

Mineral Resources

	Tonnes (m)	Rare Earths TREO %	Phosphate P₂O₅ %	NdPr Enrichment %
Measured	4.9	3.2	13	26.1
Indicated	30	2.7	12	26.4
Inferred	21	2.3	10	26.5
TOTAL	56	2.6	11	26.4

As announced on 7 June 2017. 1.0% TREO cut-off grade. Numbers may not compute exactly due to rounding. "NdPr enrichment" is the proportion of TREO comprising Nd₂O₃ and Pr₆O₁₁.

OPERATIONS REPORT

Ore Reserves

	Tonnes (m)	Rare Earths TREO %	Phosphate P2O5 %	NdPr Enrichment %
Proved	5.0	3.0	13	26.2
Probable	24.6	2.8	13	26.5
TOTAL	29.5	2.9	13	26.4

As announced on 16 March 2020. Numbers may not compute exactly due to rounding. "NdPr enrichment" is the proportion of TREO comprising Nd₂O₃ and Pr₆O₁₁.

Production Targets and Forecast Financial Information

The information in this report that relates to production targets and forecast financial information is derived from an ASX announcement dated 16 March 2020 (Major Increase in Mine Life for the Nolans Project). Arafura confirms that all material assumptions underpinning the production target and forecast financial information derived from production targets set out in the announcement released on 16 March 2020 (including the cost and pricing assumptions referred to in the Company's 16 March 2020 announcement that were used in the DFS and which are set out in the Company's ASX Announcement dated 7 February 2019 (Nolans Project Definitive Feasibility Study)), continue to apply and have not materially changed.

Bonya Joint Venture Mineral Resources

Deposit	Resources	Tonnes	Tungsten WO ₃ %	Copper Cu %
White Violet	Inferred	495,000	0.22	0.06
Samarkand	Inferred	245,000	0.19	0.13
TOTAL		740,000	0.21	0.09
Bonya Copper	Inferred	230,000	-	2.0

As announced on 9 January 2020 (White Violet and Samarkand). 0.05% WO₃ cut-off grade. Numbers may not compute exactly due to rounding.

As announced on 26 November 2018 (Bonya Copper). 0.2% Cu cut-off grade.

Bonya JV Competent Persons Statement

The information in this release that relates to the Estimation and Reporting of Mineral Resources has been compiled by Dr Graeme McDonald. Dr McDonald acts as an independent consultant to Thor Mining PLC on the Bonya Mineral Resource estimation. Dr McDonald is a member of the Australasian Institute of Mining and Metallurgy and has sufficient experience with the style of mineralisation, deposit type under consideration and to the activities 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" (The JORC Code). Dr McDonald consents to the inclusion in this report of the contained technical information relating to the Mineral Resource Estimation in the form and context in which it appears

The information in this report that relates to Bonya exploration results is based on information compiled by Richard Bradey, who holds a BSc in Applied Geology and an MSc in Natural Resource Management and who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Bradey is an employee of Thor Mining PLC. He has sufficient experience which is relevant to the style of mineralisation and type of deposit under

consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (JORC Code 2012). Mr Bradey consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

Forward Looking Statements

This annual report includes forward-looking statements. These statements relate to the Company's expectations, beliefs, intentions or strategies regarding the future. These statements can be identified by the use of words like "will", "progress", "anticipate", "intend", "expect", "may", "seek", "towards", "enable" and similar words or expressions containing same.

The forward-looking statements reflect the Company's views and assumptions with respect to future events as of the date of this announcement and are subject to a variety of unpredictable risks, uncertainties, and other unknowns. Actual and future results and trends could differ materially from those set forth in such statements due to various factors, many of which are beyond our ability to control or predict. Given these uncertainties, no one should place undue reliance on any forward-looking statements attributable to the Company, or any of its affiliates or persons acting on its behalf.

The Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Neither the Company nor any other person, gives any representation, warranty, assurance, nor will guarantee that the occurrence of the events expressed or implied in any forward-looking statement will actually occur. To the maximum extent permitted by law, the Company and each of its advisors, affiliates, related bodies corporate, directors, officers, partners, employees and agents disclaim any responsibility for the accuracy or completeness of any forward-looking statements whether as a result of new information, future events or results or otherwise.

DIRECTOR'S REPORT

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Arafura Resources Limited and the entities it controlled at the end of, or during, the year ended 30 June 2020.

Directors

The following persons were Directors of Arafura Resources Limited during the financial year or up to the date of this report:

- M. Southey
- G. Lockyer
- C. Tonkin
- Q. Zhang
- C. Moises⁽¹⁾

⁽¹⁾ Ms Moises was appointed on the 1st December 2019.

Principal activities

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

- a. Nolans Project engineering studies and Pilot Programs;
- b. Mining and associated infrastructure, social, environmental and definitive feasibility evaluations; and
- c. Mineral exploration, definition and development.

Dividends – Arafura Resources Limited

No dividends were paid during the year and the Directors do not recommend the payment of a dividend.

Operating and financial review

Arafura Resources Limited incurred a group loss of \$4,810,958 for the year ended 30 June 2020 (2019: 5,854,157). The loss is slightly lower than the 2019 as a result of the majority of the 7-phase pilot program being completed in the prior year. With the DFS completed in February 2019, engineering work commenced related to pre-front end engineering and design (**pre-FEED**) activities, which were aimed at finalising the basis of design, design specifications and philosophies in preparation for early contractor involvement (**ECI**) phase.

In July 2019, the Company completed a fully underwritten non-renounceable entitlement offer to raise \$23.2 million (before costs) and brought Talaxis Limited, a wholly owned subsidiary of Noble Group Holdings Limited as a substantial holder onto the register. Amid uncertainty stemming from COVID-19, the Company completed a share placement to raise \$7 million (before costs) in June 2020 with significant interest observed from both domestic and offshore institutional and offshore institutional and professional investors. All the funds raised have assisted Arafura progress execution readiness activities, early engineering works and interrelated programs to secure offtake agreements, complete negotiations for the mining agreement with Native Title holders, as well as general working capital.

Significant changes in the state of affairs

- In September, Arafura signed its second memorandum of understanding (MoU) with Baotou Tianhe Magnetics Technology Co., Ltd, one of China's leading manufacturers of Neodymium Iron Boron (NdFeB) permanent magnets for up to 900 tonnes per annum of NdPr oxide. The Company already has a MoU with JingCi Materials Science Co., Ltd for up to 900 tonnes per annum of NdPr oxide.
- With phase 4 to 6 of the piloting program completed in 2019, the Company completed the Separation Pilot Program, the 7th and final phase of its pilot program in the year. The Company intends to build its separation plant at Nolans, making the Nolans Project the only project that is fully domiciled in Australia. The separation pilot was completed at ANSTO and produced final samples NdPr/TREE > 99.9% and SEG-HRE/TREE > 99.5% specifications achieved for customer assessment.
- The Company entered into a strategic relationship with USA Rare Earth LLC, which allows for the treatment of Arafura's SEG-HRE carbonate product by USA Rare Earth's proprietary technology. Under the terms of the non-binding Letter of Intent, Arafura will send Heavy Rare Earth (**HREE**) concentrate from Nolans for processing at USA Rare Earth's Colorado pilot plant. Arafura has demonstrated that it can produce SEG-HRE comprising >99.5% of the total contained rare earths, with samples of this liquor representing feed material into USEARE's pilot plant in Colorado.
- Arafura has accelerated the planning and implementation of execution readiness activities, particularly with the award of the integrated project management team (**IPMT**) to KBR as Project Management Consultant. KBR has partnered with Wave International Pty Ltd to complete the scope of work for the IPMT which encompasses management of all aspects of the Project, including design services for non-process infrastructure.
- In February 2020, the Company executed a Capital Markets, Marketing and Logistics advisory agreement with Talaxis Limited. Talaxis will assist Arafura by introducing it to potential strategic partners to finance the development of the project, target key markets and counterparties for Arafura's product mix, identify the optimal logistics routes to take Arafura's products to market and locate the logistics routes and access to infrastructure for the transport and handling of project inputs, including reagents.
- The Company completed a metallurgical and drill program in October at Nolans Bore to increase the mine life of the Nolans Project beyond 23 years. Drill core samples were utilised as the basis of the flotation variability program undertaken at the Nagrom mineral processing facility in Perth, resulting in mineralised Material Type 5A2 being classified as ore and included in the project's Ore Reserves. This material was previously forecasted in the Definitive Feasibility Study (**DFS**) to be stockpiled during mining. With this data, the geometallurgical model was updated, leading to an increase in ore reserves to 33 years of production, an increase of 10 years on the DFS base case. Additionally, the life of mine schedule was updated to support 39 years of production.
- In June, Arafura Rare Earths Pty Ltd, a wholly owned subsidiary of Arafura Resources Ltd, successfully executed its Native Title Agreement with its Native title holders and the Central Land Council. An in-principle agreement was reached in February, following a meeting with the Native Title Holders on site, however the formal execution was delayed as a result of COVID-19 related travel restrictions into the Territory.

Matters subsequent to the end of the financial year

In July 2020, the Northern Territory Government granted the Mineral Leases (**MLs**) for the Nolans NdPr Project to Arafura Rare Earths Pty Ltd (**ARE**), a wholly owned subsidiary of Arafura Resources Limited. The MLs host the Nolans mine, process plant, waste storage facilities and accommodation village and are for an initial term of 25 years. Coupled with the executed Native Title Agreement between the Native title holders, the Central Land Council and ARE, the MLs allow for multiple renewals beyond the initial grant term and provides ARE the exclusive right to mine and occupy the MLs to construct and operate the Nolans Project. Subsequent to the grant of MLs, Arafura received its renewed Major Project Status from the Australian Government.

The impact of the COVID-19 pandemic is ongoing and while it has not significantly impacted the Group up to 30 June 2020, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

No other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect:

- a. the Group's operations in future financial years, or
- b. the results of those operations in future financial years, or
- c. the Group's state of affairs in future financial years.

Likely developments and expected results of operations

The grant of the MLs has been a significant milestone for the Nolans project, bringing it one step closer to final investment decision. The Company will continue its work on execution readiness activities and early engineering works to complete the Project Update as well as accelerating its progress on offtake and project funding opportunities. The geopolitical landscape for the critical minerals sector has been constantly evolving since the US/China trade war tensions. Coupled with the impact of COVID-19, economies around the world have been seeking opportunities to overcome future supply disruption risks and to encourage new supply of raw materials as well as investment into integrated supply chains. The Company expects these initiatives will be central to it achieving its offtake and project funding requirements for the Nolans Project.

Environmental regulation

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

Greenhouse gas and energy data reporting requirements

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

Information on Directors

Mark Southey

Non-Executive Chairman

Qualifications: BSc (Hons) in Engineering with Business Studies, an MBA from the University of Sydney Business School and is a Graduate of the Australian Institute of Company Directors (GAICD) and a member of Engineers Australia (MIEAust).

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

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

Mr Southey was appointed as the Chairman of Arafura Resources Limited on the 14th of February 2019.

First Appointed

30 January 2018

Other current Directorships

Fleetwood Corporation (ASX:FWD) – Independent Non-Executive Director

Former Directorships in the last 3 years

None

Special responsibilities

Chairman of the Remuneration and Nomination Committee

Member of the Audit and Risk Management Committee

Interests in shares, performance rights and options

135,000 ordinary shares in Arafura Resources Limited (Direct)

202,500 ordinary shares in Arafura Resources Limited (Indirect)

Gavin Lockyer

Managing Director and Chief Executive Officer

Qualifications: BBus, ACA, FTA

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

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

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

First Appointed

23 July 2013

Other current Directorships

None.

Former Directorships in the last 3 years

None.

Special Responsibilities

None.

Interests in shares, performance rights and options

4,750,000 unlisted options in Arafura Resources Limited (Indirect)

1,752,726 ordinary shares in Arafura Resources Limited (Indirect)

3,000,000 performance rights in Arafura Resources Limited (Direct)

Chris Tonkin

Non-Executive Director

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

Chris Tonkin has over 40 years' experience as a senior business executive with a broad multiple industry background in resources, telecommunications and banking and finance covering project finance, business generation, management, technical and strategy development roles. He began his career as a metallurgist and environmental specialist, diversifying into commercial roles at several major industrial companies and subsequently into project finance, corporate and project advisory roles at AIDC, The Chase Manhattan Bank, KPMG Corporate Finance and ANZ, where he was instrumental in the successful financing of many resources, telecommunications and infrastructure projects within Australia and globally. Chris was Head of Natural Resources Project Finance at ANZ for a number of years, leading a highly successful team of project financiers.

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

Chris is a Graduate Member of the Australian Institute of Company Directors. He is Chairman of Arafura Resources' Audit and Risk Committee and a Member of its Nomination and Remuneration Committee.

First Appointed

1 January 2011.

Other current Directorships

None.

Former Directorships in the last 3 years

Lakes Oil N.L. - Chairman

Special Responsibilities

Chairman of the Audit and Risk Management Committee.

Member of the Remuneration and Nomination Committee.

Interests in shares, performance rights and options

322,160 ordinary shares in Arafura Resources Limited (Direct)

Quansheng Zhang

Non-Executive Director

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

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

First Appointed

18 November 2016.

Other current Directorships

None.

Former Directorships in the last 3 years

None.

Special Responsibilities

None.

Interests in shares, performance rights and options

None.

DIRECTOR'S REPORT

Cathy Moises

Non-Executive Director

Qualifications: BSc (Hons) in Geology from the University of Melbourne and a Diploma of Finance and Investment from the Securities Institute of Australia.

Cathy Moises has extensive experience in the resources sector having worked as a senior resources analyst for several major stockbroking firms including McIntosh (now Merrill Lynch), County Securities (now Citigroup) and Evans and Partners where she was a partner of that firm. More recently in 2017-2019, Cathy was Head of Research at Patersons Securities Limited.

Ms Moises brings substantial experience to Arafura in company management, capital markets and institutional investor engagement. Her key areas of industry experience include gold, base metals, mineral sands and the rare earths sector.

First Appointed

1 December 2019

Other current Directorships

WA Kaolin Limited – Independent Non-Executive Director

Australian Potash Limited - Non-Executive Director

Former Directorships in the last 3 years

None.

Special Responsibilities

Member of the Audit and Risk Management Committee.

Member of the Remuneration and Nomination Committee.

Interests in shares, performance rights and options

307,521 ordinary shares in Arafura Resources Limited (Indirect)

Peter Sherrington

Joint Company Secretary

Qualifications: B.Bus, CA

Peter holds a Bachelor of Business in accounting and finance and is a member of Chartered Accountants Australia and New Zealand.

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

Catherine Huynh

Joint Company Secretary (appointed 3 April 2020)

Qualifications: B.Com, CA, ACIS

Catherine commenced employment with Arafura in 2018 in the role of Financial Controller. She has 10 years of professional experience and is a member of the Chartered Accountants Australia and New Zealand and the Governance Institute of Australia.

DIRECTOR'S REPORT

Meeting of Directors

The number of meetings of the Company's Board of Directors, the number of meetings each Board Committee held and the number of meetings attended by each Director throughout the year ended 30 June 2020 were:

Director	Board meetings		Committee Meetings			
	Full meetings of Directors held	Full meetings of Directors attended	Audit & Management Risk Committee meetings held	Audit & Risk Management Committee meetings attended	Remuneration & Nomination Committee held	Remuneration & Nomination Committee attended
Mark Southey	13	13	4	4	3	3
Gavin Lockyer	13	12	-	-	-	-
Chris Tonkin	13	13	4	4	3	2
Quansheng Zhang	13	9	-	-	-	-
Cathy Moises⁽¹⁾	8	8	2	2	2	2

⁽¹⁾ C Moises was appointed on 1 December 2019. She attended all meetings subsequent to her appointment.

As at 30 June 2020 the Committees of Arafura are comprised of the following:

- Mr Southey is Chairman of the Remuneration and Nomination Committee and a member of the Audit and Risk Management Committee.
- Mr Tonkin is Chairman of the Audit and Risk Management Committee and a member of the Remuneration and Nomination Committee.
- Ms Moises is a member of the Audit and Risk Committee Management Committee and a member of the Remuneration and Nomination Committee.

Remuneration Report (audited)

Dear Shareholder,

On behalf of the Nomination and Remuneration Committee I am pleased to present the Remuneration Report for the year ended 30 June 2020.

The Company has worked hard over the financial year to advance the Nolans Project and with this in mind, the Remuneration and Nomination Committee have endeavoured to align executive remuneration with shareholder value.

For Non-Executive Directors there have been no changes to fees since 2011. For executives there have been no changes in fixed base pay and benefits since 2013 except for limited instances where the role is new or there has been a substantial change in responsibilities.

For Executives long term incentive structures through participation in the Employee Share Option Plan and Performance Rights Plan has been aligned with the delivery of key milestones for the Nolans Project, these include:

- Completion of the Nolans Project DFS
- Grant of a Mining Lease
- Project funding for the Nolans Project

Non-Executive Director remuneration consists of Base Fees. No committee fees, short term incentives or long-term incentives were paid or provided to Non-Executive Directors.

We believe the report will assist you in understanding the objectives targeted through the remuneration strategy. Should you have any questions we would be happy to discuss these with you.

Yours Sincerely,



Mark Southey

Chairman

Nomination and Remuneration Committee

DIRECTOR'S REPORT

A list of Directors and Key Management Personnel of Arafura Resources Ltd during the financial year or up to the date of this report is detailed below:

Non-Executive and Executive Directors:

- Mark Southey - Chairman
- Gavin Lockyer – Managing Director and Chief Executive Officer
- Chris Tonkin
- Quansheng Zhang
- Cathy Moises ⁽¹⁾

⁽¹⁾ Ms Moises was appointed on 1 December 2019.

Other Key Management Personnel

- Peter Sherrington – Chief Financial Officer and Company Secretary
- Stewart Watkins – General Manager of Projects

Remuneration Governance

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

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

Its objective is to ensure that remuneration policies and structures are fair and competitive and aligned with the long-term interests of the Company and its shareholders. Further information is provided within the remuneration report.

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation
- E Additional information

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

A Principles used to determine the nature and amount of remuneration

For the 2020 financial year, all compensation arrangements for Directors and the Group's Executives were determined at Board level after taking into account the competitive rates prevailing in the market place.

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

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

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

Non-Executive Directors

Fees and payments to Non-Executive Directors reflect the demands that are made on, and the responsibilities of, the Directors. Non-Executive Directors' fees and payments were reviewed by the Nomination and Remuneration Committee. The Committee considered market conditions and its remuneration from the prior year and recommended that there be no changes to the remuneration of Non-Executive Directors. The Chairman's fee is determined independently to the fees of Non-Executive Directors based on comparative roles in the external market.

Non-Executive Directors' fees are determined within an aggregate Directors' fee pool limit, which is periodically recommended for approval by shareholders and currently stands at \$1,000,000 per annum.

Fees	Year ended 30 June 2020	Year ended 30 June 2019
Base Fees		
Chairman	\$151,200	\$151,200
Other Non-Executive Directors	\$78,400	\$78,400
Additional Fees		
Audit & Risk Committee Member or Chairman	*	*
Nomination & Remuneration Committee Member or Chairman	*	*

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

The current base remuneration was last reviewed with effect from 1 July 2019.

The above fees are per annum and include superannuation.

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

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

Executive pay

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

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

Base pay and benefits

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

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. The Board considered prevailing market conditions and the Company's strategy going forward. Base pay for Senior Executives is reviewed annually to ensure the Executive's pay is competitive with the market. An Executive's pay is also reviewed upon promotion. There are no guaranteed base pay increases fixed in any Senior Executive's contract.

Managing Director and Chief Executive Officer, Mr. Gavin Lockyer's contract remained unchanged for the 2020 financial year.

Short-term performance incentives

Short-term incentives are used to encourage and reward the performance of Executive Directors, officers and senior management for their role in achieving corporate objectives and are directly linked to the creation of shareholder wealth.

The Remuneration and Nomination Committee is responsible for assessing whether Key Performance Indicators ("KPI's") are met. The Committee considers market rates of salaries for levels across the Company, which have been based on industry data provided by a range of employment agencies.

Long-term performance incentives

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

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

DIRECTOR'S REPORT

Under the Company's Option Plan approved by shareholders at the general meeting held on 16 November 2017, the Board has absolute discretion to:

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

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

Under the Company's Performance Rights Plan approved by shareholders at the general meeting held on 16 November 2017, the Board has absolute discretion to:

- invite eligible persons to apply for a specified number of performance rights;
- set performance conditions attaching to the rights (typically milestones);
- require no payment for the grant of a right and no payment on vesting or exercise of a right; and
- set expiry dates for the rights.

No bonus payments were paid during the reporting period.

Other transactions with key management personnel

During the 2020 financial year, there were no other transactions with the directors or other key management personnel at any time.

Use of remuneration consultants

The Nomination and Remuneration Committee utilised Mercer in the year ended 30 June 2020 to provide the results of its Australian salary survey to allow the Company to compare its remuneration levels across the market.

Relationship between remuneration and Company performance

Executives receive their TFR which is not linked to Company performance, however they can also receive short and long-term incentives which are used to encourage and reward the performance of Executive Directors, officers and senior management for their role in achieving corporate objectives that are directly linked to the creation of shareholder wealth.

For the year ended 30 June 2020, no performance or incentive KPI's were set for Executives or the Managing Director and no bonuses, options or performance rights were received. The Executives were issued with options on 31 July 2018 and performance rights on 21 September 2018 in line with the Company's Employee Share Option Plan and Performance Rights Plan. Current option and performance rights interests are shown on pages 37 and 38 respectively.

B Details of remuneration

Details on the remuneration of key management personnel of the Group (as defined in AASB 124: *Related Party Disclosures*) are set out in the following tables.

Key management personnel include the Directors of Arafura Resources Limited and those senior executives having authority and responsibility for planning, directing and controlling the activities of Arafura, being:

- P. Sherrington – Chief Financial Officer and Joint Company Secretary
- S. Watkins – General Manager of Projects

Voting and comments made at the Company's 2019 Annual General Meeting

Arafura Resources Ltd received more than 96% of "for" votes on its remuneration report for the 2019 financial year.

The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

DIRECTOR'S REPORT

	Short-term benefits			Post-employment benefits	Long-term benefits		Share-based payments		
2020	Cash salary and fees	Bonus	Non-monetary benefits	Super-annuation	Long service leave	Termination benefits	Options and Performance Rights	% share based payments	Total
Name	\$	\$	\$	\$	\$	\$	\$		\$
Non-Executive Directors									
M Southey	138,082	-	-	13,118	-	-	-	-	151,200
C Tonkin	70,000	-	-	8,400	-	-	-	-	78,400
Z Quansheng	78,400	-	-	-	-	-	-	-	78,400
C Moises ⁽¹⁾	41,765	-	-	3,968	-	-	-	-	45,733
Executive Directors									
G Lockyer	401,100	-	388	25,000	8,143	-	73,246	14.4%	507,877
Other key management personnel (Group)									
P Sherrington	316,100	-	15	25,000	6,291	-	66,184	16.0%	413,590
S Watkins	268,997	-	21	21,003	4,847	-	76,603	20.6%	371,471
Total	1,314,444	-	424	96,489	19,281	-	216,033		1,646,671

⁽¹⁾ C Moises was appointed on 1 December 2019.

DIRECTOR'S REPORT

	Short-term benefits			Post-employment benefits	Long-term benefits		Share-based payments		
2019	Cash salary and fees	Bonuses	Non-monetary benefits	Super-annuation	Long service leave	Termination benefits	Options and Performance Rights	% share based payments	Total
Name	\$	\$	\$	\$	\$	\$	\$		\$
Non-Executive Directors									
M Southey	96,530	-	-	9,170	-	-	-	-	105,700
C Tonkin	71,598	-	-	6,802	-	-	-	-	78,400
Z Quansheng	78,400	-	-	-	-	-	-	-	78,400
I Kowalick ⁽¹⁾	86,301	-	-	8,199	-	-	-	-	94,500
T Grose ⁽²⁾	29,833	-	-	2,834	-	-	-	-	32,667
Executive Directors									
G Lockyer	401,100	-	1,987	25,000	21,308	-	83,523	15.7%	532,918
Other key management personnel (Group)									
P Sherrington	316,100	-	1,998	25,000	763	-	85,545	19.9%	429,406
S Watkins	264,973	-	-	24,993	4,904	-	101,250	25.6%	396,120
R Brescianini ⁽³⁾	276,100	-	1,975	25,000	(9,649)	-	73,993	20.1%	367,419
B Fowler ⁽³⁾	257,626	-	-	24,474	17,541	-	70,167	19.0%	369,808
L Kaiser ⁽³⁾	261,986	-	1,926	24,889	4,781	-	71,443	19.6%	365,025
Total	2,140,547	-	7,886	176,361	39,648	-	485,921		2,850,363

⁽¹⁾ Mr Kowalick retired on the 14th February 2019.

⁽²⁾ Mr Grose retired on the 21st November 2018.

⁽³⁾ Mr Brescianini, Mr Fowler and Mr Kaiser are not key management personnel in accordance with the accounting standards.

C Service agreements

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

Remuneration and other terms of employment for the Managing Director and other key management personnel are also formalised in service agreements. Each of these agreements provide for the provision of performance-related cash bonuses and other benefits including participation where eligible in the Arafura Share Option Plan and Performance Rights Plan. Other major provisions of the agreements relating to remuneration are set out below for the 2020 financial year:

G Lockyer, Managing Director

- No term of agreement.
- Base salary inclusive of superannuation, for the year ended 30 June 2020 of \$426,100.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to six months of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to six months of the base salary.

P Sherrington, Chief Financial Officer and Joint Company Secretary

- No term of agreement.
- Base salary inclusive of superannuation, for the year ended 30 June 2020 of \$341,100.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to three months of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to three months of the base salary.

S Watkins, General Manager of Projects

- No term of agreement.
- Base salary inclusive of superannuation for the year ended 30 June 2020 of \$290,000.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to one month of the base salary.
- Payment of termination benefit on the position becoming redundant, equal to one month of the base salary.

D Share-based compensation

Employee share scheme - Options

Options over shares in Arafura Resources Limited are granted by the Board under the Arafura Resources Limited Share Option Plan which was last approved by shareholders at the 2017 annual general meeting.

Options are granted for no consideration and generally have a term of three years. For options affecting remuneration in current or future reporting period, 100% of each tranche vests and is exercisable in accordance with the table below.

Grant date	Date vested and exercisable	Expiry date	Exercise price	Model option value	% Vested
31-Jul-17	01-Jul-19	30-Jun-21	\$0.15	\$0.020	100%
31-Jul-17	01-Jul-20	30-Jun-21	\$0.15	\$0.023	0%
31-Jul-18	1-Jul-19	1-Jul-22	\$0.12	\$0.050	100%
31-Jul-18	1-Jul-20	1-Jul-22	\$0.12	\$0.050	0%
31-Jul-18	1-Jul-21	1-Jul-22	\$0.12	\$0.050	0%
22-Nov-18	1-Jul-19	1-Jul-22	\$0.12	\$0.020	100%
22-Nov-18	1-Jul-20	1-Jul-22	\$0.12	\$0.020	0%
22-Nov-18	1-Jul-21	1-Jul-22	\$0.12	\$0.020	0%

No options were issued to Directors and other key management personnel during the year ended 30 June 2020.

Options granted under the plan carry no dividend or voting rights.

Vesting of the options is not subject to any conditions other than it be at or subsequent to the vesting date and before the expiry date. When exercisable, each option is convertible into one ordinary share of Arafura Resources Limited.

The options expire on the earlier of their expiry date or one month after resignation of the employee (whether vested or not) or upon termination of their employment (unless the Board decides otherwise).

The Company has the option of deferral of performance-based remuneration and/or the reduction, cancellation or clawback of the performance-based remuneration in the event of serious misconduct or a material misstatement in the Company's financial statements.

The details of each grant of options affecting remuneration in the current or future reporting periods are detailed in Section E.

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

price volatility of the underlying share and the risk-free interest rate of the term of the option. The options are probability weighted for management's best estimate of staff turnover taking into account the period of time to vesting date.

Shares provided on exercise of remuneration options

No options were converted to shares by any Director or other key management personnel during the 30 June 2020 financial year.

Employee Share Scheme - Performance rights

No performance rights were issued to Directors and other key management personnel during the year ended 30 June 2020.

Performance rights in Arafura Resources Limited are granted by the Board under the Arafura Resources Limited Performance Rights Plan which was last approved by shareholders at the 2017 Annual General Meeting.

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

During the year ended 30 June 2019, the Board approved a total of 10,000,000 performance rights to be offered to senior staff, senior management and the Managing Director. The Managing Director was issued 3,000,000 performance rights which was subsequently approved by shareholders at the Annual General Meeting on 22 November 2018. These performance rights were granted in three tranches and will vest upon the successful completion of the following performance conditions:

- Tranche 1- completion of the DFS within 25% or better of US\$680m Capex and \$35/kg NdPr Opex (excluding Phosphate credit) for the Company's Nolans NdPr Project and completion of an eligible service period of 24 months from the date the milestone is achieved.
- Tranche 2- Grant of the Mining Lease from the Northern Territory Department of Primary Industry and Resources in relation to the Nolans NdPr Project and completion of an eligible service period of 24 months from the date the milestone is achieved.
- Tranche 3- Project funding secured on term acceptable to the Board to enable project investment decision and completion of an eligible service period of 24 months from the date the milestone is achieved.

The Board has ultimate discretion on whether the performance hurdles have been met. During the year ended 30 June 2019, the Board confirmed that the Tranche 1 milestone was met on 7 February 2019 and will therefore vest after the 24-month service period has been completed. No milestones were met during the year ended 30 June 2020.

Each Tranche of performance rights will (if not vested) lapse four years after the issue of those performance rights.

The details of each grant of performance rights affecting remuneration in the current or future reporting periods are detailed in Section E.

DIRECTOR'S REPORT

E Additional information

Loans to Directors and Executives

During the 2019 and 2020 financial year, there were no loans to the Directors or other key management personnel.

Other transactions with key management personnel

During the 2019 and 2020 financial year, there were no other transactions with the Directors or other key management personnel at any time.

Movements in option interests of Key Management Personnel for 30 June 2020

Name	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of year	Vested during the year	Vested and exercisable at end of year
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Directors of Arafura Resources Limited

M Southey	-	-	-	-	-	-	-
G Lockyer	4,750,000	-	-	-	4,750,000	1,583,333	1,583,333
C Tonkin	-	-	-	-	-	-	-
Q Zhang	-	-	-	-	-	-	-
C Moises	-	-	-	-	-	-	-

Key management personnel of the Group

P Sherrington	2,950,000	-	-	-	2,950,000	983,333	1,083,333
S Watkins	3,375,000	-	-	-	3,375,000	1,125,000	1,125,000
Total	11,075,000	-	-	-	11,075,000	3,691,666	3,791,666

DIRECTOR'S REPORT

Movements in performance rights of Key Management Personnel for 30 June 2020

Name	Balance at the start of the year	Granted as compensation	Exercised	Other Changes	Balance at end of the year	Vested during the year	Vested and exercisable at end of year
------	----------------------------------	-------------------------	-----------	---------------	----------------------------	------------------------	---------------------------------------

Directors of Arafura Resources Limited

M Southey	-	-	-	-	-	-	-
G Lockyer	3,000,000	-	-	-	3,000,000	-	-
C Tonkin	-	-	-	-	-	-	-
Q Zhang	-	-	-	-	-	-	-
C Moises	-	-	-	-	-	-	-

Other key management personnel of the group

P Sherrington	1,450,000	-	-	-	1,450,000	-	-
S Watkins	1,350,000	-	-	-	1,350,000	-	-
Total	5,800,000	-	-	-	5,800,000	-	-

Movements in share interests of Key Management Personnel for 30 June 2020

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year (on trades and entitlement offer)	Balance at the end of the year
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Directors of Arafura Resources Limited

M Southey	250,000	-	87,500	337,500
G Lockyer	1,298,315	-	454,411	1,752,726
C Tonkin	238,637	-	83,523	322,160
Z Quansheng	-	-	-	-
C Moises	-	-	307,521	307,521

Key management personnel of the Group

P Sherrington	512,273	-	179,296	691,569
S Watkins	-	-	-	-
Total	2,299,225	-	1,112,251	3,411,476

This is the end of the audited remuneration report.

Insurance of officers

During the 2019 and 2020 financial year, the Group has paid an insurance premium in respect of a Directors' and Officers' Liability Insurance Contract. The insurance premium relates to liabilities that may arise from an officer's position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain personal advantage.

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

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

Proceedings on behalf of the Company

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

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

Non-audit services

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

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

No fees for non-audit services were paid or payable to the Company's external auditors for the year ended 30 June 2020.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 41.

Signed in accordance with a resolution of the Directors.



Gavin Lockyer

Managing Director



Mark Southey

Chairman

Perth, Western Australia

19 August 2020

COPORATE GOVERNANCE STATEMENT

The Company has established a corporate governance framework, the key features of which are set out in its Corporate Governance statement which can be found on the Company's website at arultd.com, under the section marked "Corporate Governance".

In establishing its corporate governance framework, the Company has referred to the recommendations set out in the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations 4th edition (**Principles & Recommendations**). The ASX Corporate Governance Council released the Principles & Recommendations applicable to financial years commencing 1 July 2020 however the Company has elected to early adopt for the 30 June 2020 financial year.

The Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Company's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. In compliance with the "if not, why not" reporting regime, where, after due consideration, the Company's corporate governance practices do not follow a recommendation, the Board has explained its reasons for not following the recommendation and disclosed what, if any, alternative practices the Company has adopted instead of those in the recommendation.

DECLARATION OF INDEPENDENCE BY GLYN O'BRIEN TO THE DIRECTORS OF ARAFURA RESOURCES LIMITED

As lead auditor of Arafura Resources Limited for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

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



Glyn O'Brien

Director

BDO Audit (WA) Pty Ltd

Perth, 19 August 2020

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**
FOR THE YEAR ENDED 30 JUNE 2020



	Notes	2020 \$	2019 \$
Non-capitalised portion of R&D tax incentive rebate	4(b)	237,272	445,835
Other income	4(a)	406,108	127,461
Employee benefits expense	5(c)	(2,576,926)	(2,575,777)
Other expenses	5(e)	(2,343,041)	(3,075,486)
Depreciation and amortisation	5(a)	(97,750)	(184,633)
Finance costs	5(b)	(11,453)	(5,417)
Share Based Payments	5(d)	(425,168)	(538,127)
Impairment of assets	5(f)	-	(48,013)
Loss before income tax		(4,810,958)	(5,854,157)
Net (Loss) after income tax for the year		(4,810,958)	(5,854,157)
Total comprehensive (loss) for the year attributable to owners of Arafura Resources Limited		(4,810,958)	(5,854,157)
Loss per share attributable to owners of Arafura Resources Limited			
Basic loss per share (cents per share)	23	(0.46)	(0.86)
Diluted loss per share (cents per share)	23	(0.46)	(0.86)

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 30 JUNE 2020



	Notes	2020 \$	2019 \$
CURRENT ASSETS			
Cash and cash equivalents	7	22,771,113	5,397,774
Trade and other receivables	8	217,558	61,715
Total Current Assets		22,988,671	5,459,489
NON-CURRENT ASSETS			
Property, plant and equipment	9	72,187	110,688
Right-of-use assets	10	417,712	-
Deferred exploration, evaluation and development costs	11	107,562,652	100,239,297
Other assets	12	340,326	255,007
Total Non-Current Assets		108,392,877	100,604,992
TOTAL ASSETS		131,381,548	106,064,481
CURRENT LIABILITIES			
Trade and other payables	13	1,763,738	722,261
Lease liabilities	14	230,543	-
Provisions	15	730,846	721,985
Total Current Liabilities		2,725,127	1,444,246
NON-CURRENT LIABILITIES			
Lease liabilities	14	190,672	-
Provisions	15	2,572	7,339
Total Non-Current Liabilities		193,244	7,339
TOTAL LIABILITIES		2,918,371	1,451,585
NET ASSETS		128,463,177	104,612,896
EQUITY			
Contributed equity	16	242,281,597	214,045,526
Reserves	17	12,638,758	12,213,590
Accumulated losses	18	(126,457,178)	(121,646,220)
TOTAL EQUITY		128,463,177	104,612,896

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2020



Consolidated	Notes	Contributed equity \$	Equity reserve \$	Accumulated losses \$	Total equity \$
Balance at 30 June 2018		203,567,241	11,675,463	(115,792,063)	99,450,641
Loss for the 2019 financial year	18	-	-	(5,854,157)	(5,854,157)
Other comprehensive income		-	-	-	-
Total Comprehensive loss for the year		-	-	(5,854,157)	(5,854,157)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs and tax	16	10,478,285	-	-	10,478,285
Employee share options – value of employee services	17	-	538,127	-	538,127
Balance at 30 June 2019		214,045,526	12,213,590	(121,646,220)	104,612,896
Loss for the 2020 financial year	18	-	-	(4,810,958)	(4,810,958)
Other comprehensive income		-	-	-	-
Total Comprehensive loss for the year		-	-	(4,810,958)	(4,810,958)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs and tax	16	28,236,071	-	-	28,236,070
Employee share options – value of employee services	17	-	425,168	-	425,168
Balance at 30 June 2020		242,281,597	12,638,758	(126,457,178)	128,463,177

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020



	Notes	2020 \$	2019 \$
Cash flows from operating activities			
Payments to suppliers and employees		(5,198,323)	(5,356,618)
Interest received		324,488	208,918
Other income		66,301	-
R&D Incentive rebate - non-capitalised portion		237,272	445,835
Interest paid		(11,453)	(5,417)
Net cash (outflow) from operating activities	19	(4,581,715)	(4,707,282)
Cash flows from investing activities			
Payment for property, plant and equipment		(43,950)	(4,317)
Payment for term deposits		(116,581)	-
Proceeds from term deposits		95,764	-
Payment to acquire tenements/proceeds from relinquishment of tenement		(64,504)	(23,629)
Proceeds from disposal of fixed assets		-	20,909
Payments for exploration and evaluation		(7,384,248)	(9,902,477)
R&D Incentive rebate - capitalised portion		1,278,022	1,661,960
Net cash (outflow) from investing activities		(6,235,497)	(8,247,554)
Cash flows from financing activities			
Net proceeds from issue of shares		30,246,747	11,346,697
Payments for transaction costs		(2,010,675)	(868,412)
Repayment of Lease liabilities		(45,631)	-
Net cash inflow from financing activities		28,190,441	10,478,285
Net increase/(decrease) in cash and cash equivalents		17,373,229	(2,476,551)
Cash at the beginning of the financial year		5,397,774	7,874,096
Effects of exchange rate changes on cash and cash equivalents		110	229
Cash and cash equivalents at the end of the financial year	7	22,771,113	5,397,774

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

INDEX TO THE NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020



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Note 1: Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of Arafura Resources Limited and its subsidiaries.

a. Basis of preparation

This general-purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Interpretations and the *Corporations Act 2001*. Arafura Resources Limited is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRS

The consolidated financial statements of the Arafura Resources Limited Group also comply with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Early adoption of standards

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2020.

Historical cost convention

These financial statements have been prepared on a historical cost basis.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are disclosed in Note 3.

b. Going concern

Arafura's financial statements have been prepared on a going concern basis. There does not currently appear to be either any significant impact upon the financial position of the Group or any significant uncertainties with respect to events or conditions which may impact the financial position of the Group unfavourably as at the reporting date or subsequently as a result of the COVID-19 pandemic.

c. Principles of consolidation

i. Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Arafura Resources Limited ('parent entity') as at 30 June 2020 and the results of all controlled entities for the year then ended. Arafura Resources Limited and its subsidiaries together are referred to in this financial report as the Group.

Note 1: Summary of significant accounting policies (continued)

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

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

ii. Joint arrangements

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

Joint Operations

Arafura recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements, further reference is made at Note 26.

Joint Ventures

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

d. Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair value. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

e. Impairment of non-current assets

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Note 1: Summary of significant accounting policies (continued)

f. Employee benefits

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

Share-based compensation benefits are provided to employees via the Arafura Resources Limited Employee Share Option Plan and Performance Rights Plan. Employee benefits received under this plan are accounted for as an option under *AASB2: Share-based Payment*. Information in relation to the scheme is set out in Note 28.

The fair value of options granted is recognised as an expense with a corresponding increase in equity over the relevant vesting period. The fair value is measured at grant date using the Black-Scholes or Binomial option pricing model. The cumulative charge to profit or loss is calculated based on the grant date fair value, the best estimate of the number of options that are likely to vest and the expired portion of the vesting period. Upon exercise of options, the balance of the share-based payments reserve in relation to those options is transferred to retained earnings.

The fair value of performance rights granted to employees is recognised as an expense with a corresponding increase in equity over the relevant vesting period, being the period over which the performance condition and any service condition is achieved. The cumulative charge to profit or loss is calculated based on the grant date fair value, the best estimate of the number of performance rights that are likely to vest and the expired portion of the vesting period. The number of rights expected to vest is estimated based on the attaching milestone conditions. The estimates are revised at the end of each reporting period and adjustments are recognised in profit or loss and equity.

The dilutive effect of outstanding vested options with an exercise price less than the market weighted average share price is reflected as additional share dilution on the computation of earnings per share.

g. Foreign currency translation

The consolidated financial statements are presented in Australian dollars, which is Arafura Resources Limited's functional and presentational currency. Foreign currency transactions are translated into the foreign currency using the exchange rates prevailing at the date of transaction.

h. R&D Incentive Rebate

Any rebate received for eligible Research and Development activities are offset against the area where the costs were initially incurred. For R&D expenditure that has been capitalised, any claim received will be offset against 'Deferred Exploration and Evaluation Expenditure' in the Consolidated Statement of Financial Position. For R&D expenditure that has been expensed, any claim received will be recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Note 1: Summary of significant accounting policies (continued)

i. Accounting Standards and Interpretations Issued Not Yet Effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2020. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

i. Conceptual Framework for Financial Reporting (Conceptual Framework)

Application date:

Must be applied for annual reporting periods beginning on or after 1 January 2020.

Nature of change:

The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards. Where the Group has relied on the existing framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under the Australian Accounting Standards, the Group may need to review such policies under the revised framework.

Impact on initial application:

At this time, the application of the Conceptual Framework is not expected to have a material impact on the Group's financial statements.

Date of adoption by the Group:

The Group will apply the standard from its mandatory adoption date for financial periods beginning on or after 1 January 2020. It will therefore be in effect as of 1 July 2020.

j. New and amended standards adopted by the Company

i. AASB 16 Leases

Application date:

Adopted by the Group on 1 July 2019.

Nature of change:

The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases

Note 1: Summary of significant accounting policies (continued)

Impact on initial application:

AASB 16 was adopted using the modified retrospective approach and as such comparatives have not been restated. There was no impact from adoption as of 1 July 2019 as all leases held by the Group as at that date were determined to be short-term leases.

Practical expedients applied:

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics; and
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases.

Note 2: Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (which can include currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

The Group holds the following financial instruments:

	2020 \$	2019 \$
Financial assets		
Cash and cash equivalents	22,771,113	5,397,774
Trade and other receivables	217,558	61,715
	22,988,671	5,459,489
Financial liabilities		
Trade creditors	622,676	275,984
Trade and other accruals	1,134,939	424,917
PAYG and payroll tax liabilities	6,124	21,360
Lease liabilities	421,215	-
	2,184,954	722,261

a. Market risk

i. Foreign exchange risk

The Group is exposed to foreign exchange risk arising from contract exposure in relation to the provisions of goods and services by outside organisations. The exposure is limited to the value of a USD bank balance, being USD\$3,463 at 30 June 2020 (2019: USD\$3,463).

ii. Price risk

The Group was not exposed to equity securities price risk. This typically arises from investments held by the Group and classified on the statement of financial position as financial assets held at fair value. At 30 June 2020, Arafura had no such investments (2019: nil).

iii. Cash flow and fair value interest rate risk

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

b. Credit risk

The Group has no significant concentrations of credit risk.

Note 2: Financial Risk Management (continued)

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

2020	2019
\$	\$

Cash at bank and short-term bank deposits

Standard & Poor's rating AA-

22,771,113	5,397,774
-------------------	------------------

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

c. Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities for the ability to fund future commitments. Due to the dynamic nature of the underlying businesses, the finance team aims at maintaining flexibility in funding to achieve this goal.

Financing arrangements

The Group has no financing arrangements as at the reporting date.

Maturities of financial liabilities

The table below illustrates the Group's financial liabilities at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group – At 30 June 2020	Less than 6 months	6 – 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amounts of liabilities
	\$	\$	\$	\$	\$	\$	\$

Non-derivatives

Non-interest bearing	1,763,739	-	-	-	-	1,763,739	1,763,739
Fixed rate	121,687	124,150	194,920	-	-	440,758	421,215
Total non-derivatives	1,885,426	124,150	194,920	-	-	2,204,497	2,184,954

Group – At 30 June 2019	Less than 6 months	6 – 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amounts of liabilities
	\$	\$	\$	\$	\$	\$	\$

Non-derivatives

Non-interest bearing	722,261	-	-	-	-	722,261	722,261
Fixed rate	-	-	-	-	-	-	-
Total non-derivatives	722,261	-	-	-	-	722,261	722,261

Note 3: Critical accounting estimates and judgments

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

a. Critical accounting estimates and assumptions

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

Continued recognition of Exploration and evaluation expenditure

Details of the Group's policy regarding the capitalisation of mining, evaluation and development expenditure are found in Note 11.

Income taxes

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

Under the Industry Research and Development Act 1986, Arafura Resources Limited received Notice of Registration for the R&D Tax Incentive during the income year 2017/18.

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

The Group is currently in the process of claiming for expenditure on the eligible registered R&D activities for the 2020 financial year.

Share based payments

The Group has issued share based payments in the form of options and performance rights in the year. Assumptions and estimates made in relation to these share based payments are detailed in Note 28.

Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the entity's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The entity reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

Note 3: Critical accounting estimates and judgments (continued)

Incremental borrowing rate

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the entity estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

b. Critical judgments in applying the entity's accounting policies

The following critical judgements have been made when applying the entity's accounting policies for the 2020 financial year:

Impairment assessment of Exploration and Evaluation cost carried forward

Details of the Group's impairment assessment of Exploration and Evaluation costs carried forward are found in Note 11.

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. There does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Group unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

Note 4: Revenue

Accounting Standard

Revenue Recognition

Revenue is recognised and measured when the performance obligation has been satisfied. The performance obligation is generally considered to be satisfied when the goods are physically transferred to the buyer.

Interest revenue is recognised as earned.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

	2020	2019
	\$	\$

(a) Other Income

Interest received	312,763	127,232
Foreign exchange gain	108	229
Government grants	93,237	-
Total other income	406,108	127,461

(b) Non-capitalised portion of R&D Tax Incentive rebate

Non-capitalised portion of R&D Tax Incentive rebate	237,272	445,835
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Note 5: Expenses

	2020 \$	2019 \$
(a) Depreciation		
Depreciation – office furniture and fittings	2,882	3,313
Depreciation – Office and computer equipment	24,866	28,987
Depreciation – plant & equipment	5,707	141,604
Depreciation – leasehold improvements	10,055	10,729
Depreciation – right-of-use assets	54,240	-
Total depreciation	97,750	184,633
(b) Finance costs		
Interest expense – lease liability	5,107	-
Interest expense - other	6,346	5,417
Total finance costs	11,453	5,417
(c) Employee benefits expense		
Employee benefits expense	2,576,926	2,575,777
(d) Share Based Payments		
Share-based employee benefits	425,168	538,127
(e) Other expenses		
Accounting and other professional fees	32,363	98,676
Audit fees	55,118	52,427
Consultants fees	356,463	949,325
Insurance	109,447	99,751
Legal fees	128,929	349,173
Share registry and stock listing fees	150,510	57,889
Loss on disposal of fixed assets	38,941	171,707
Other expenses	1,471,270	1,296,538
Total other expenses	2,343,041	3,075,486
(f) Impairment of assets		
Capitalised exploration expenditure	-	48,013
Total Expenses	5,454,338	6,427,453

Note 6: Income Tax

Accounting Standard

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

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

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

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

The amount of benefit brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Arafura Resources Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated Group under the Tax Consolidation Regime. Arafura Resources Limited is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated Group. The entities in the tax consolidated Group have not yet entered into a tax sharing agreement or a tax funding arrangement but may enter into these types of agreements in the future if it is considered beneficial to the Group to do so.

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

Note 6: Income Tax (continued)

	2020 \$	2019 \$
Income tax expense		
Current tax		-
Loss before income tax	4,810,958	5,854,157
Income tax benefit @ 30%	1,443,287	1,756,247
Tax effect of amounts which are not deductible in calculating taxable income:		
• Entertainment	(3,938)	(3,265)
• Share-based payments	(127,551)	(161,438)
• Sundry items not deductible (assessable)	87,534	133,819
• Deferred tax assets relating to tax losses and temporary differences not recognised	(3,959,970)	(4,514,121)
• Temporary differences not recognised	2,560,638	2,788,758
Total income tax benefit	-	-

The franking account balance at year end was nil (2019: nil).

Deferred tax assets and liabilities not recognised relate to the following:

<i>Deferred tax assets</i>		
Tax losses	63,507,213	59,710,879
Other temporary differences	1,373,137	647,980
Total deferred tax assets	64,880,350	60,358,859
Deferred tax liabilities	(32,403,024)	(30,072,136)
Net Deferred tax assets	32,477,326	30,286,723

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

Note 7: Current assets – cash and cash equivalents

Accounting Standard

For statement of cash flows presentation purposes, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

	2020 \$	2019 \$
Cash at bank and in hand	1,940,865	1,397,774
Bank deposits ⁽¹⁾	20,830,248	4,000,000
	22,771,113	5,397,774

⁽¹⁾ All bank deposits mature within three months of 30 June 2020.

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

Reconciliation to cash at the end of the year

Balances as above	22,771,113	5,397,774
Balances as per statements of cash flows	22,771,113	5,397,774

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

Note 8: Trade and other receivables

Accounting Standard

Trade receivables are recognised initially at fair value less allowance for expected credit losses. Trade receivables are due for settlement no more than 120 days from the date of recognition for land development and resale debtors, and no more than 30 days for other debtors.

Collection of trade receivables is reviewed on an ongoing basis. Debts, which are known to be uncollectible, are written off. A provision for doubtful receivables is established using the expected credit loss model under AASB 9.

	2020 \$	2019 \$
Sundry debtors	26,937	11,724
GST receivables	143,959	22,837
Prepayments	46,662	27,154
	217,558	61,715

Note 9: Non-current assets – property, plant and equipment

Accounting Standard

a. Cost

All classes of property, plant and equipment are initially measured at historical cost less, where applicable, any accumulated depreciation and impairment losses. The carrying amount of plant and equipment is reviewed annually to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or capitalised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

b. Depreciation

The depreciable amount of all fixed assets including capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use.

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

Depreciation on assets is calculated over their estimated useful life as follows:

Class of fixed asset	Estimated useful life
Office furniture and fittings	10 years
Office and computer equipment	3 years
Plant and equipment	5 years
Motor vehicles	3 years
Leasehold improvements	10 years

The asset's residual value and useful life are reviewed, and adjusted if appropriate, at each statement of financial position date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of profit or loss and other comprehensive income.

When re-valued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

Note 9: Non-current assets – property, plant and equipment (continued)

	Office furniture and fittings	Office and computer equipment	Plant and equipment	Motor vehicles	Land, buildings and leasehold additions	Total
	\$	\$	\$	\$	\$	\$
Consolidated						
Year ended 30 June 2019						
Opening book amount	18,348	50,579	352,379	-	62,315	483,621
Additions	-	4,317	-	-	-	4,317
Disposals	-	-	(192,617)	-	-	(192,617)
Depreciation charge	(3,313)	(28,987)	(141,604)	-	(10,729)	(184,633)
Closing book amount	15,035	25,909	8,158	-	51,586	110,688
At 30 June 2019						
Cost or fair value	94,631	768,110	126,440	203,308	169,488	1,361,977
Accumulated depreciation	(79,596)	(742,201)	(108,282)	(203,308)	(117,902)	(1,251,289)
Net book amount	15,035	25,909	18,158	-	51,586	110,688
Year ended 30 June 2020						
Opening book amount	15,035	25,909	18,158	-	51,586	110,688
Additions	2,035	39,499	2,414	-	-	43,948
Disposals	(3,622)	(615)	-	-	(34,702)	(38,939)
Depreciation charge	(2,882)	(24,866)	(5,707)	-	(10,055)	(43,510)
Closing book amount	10,566	39,927	14,865	-	6,829	72,187
At 30 June 2020						
Cost or fair value	42,471	399,787	105,234	151,253	93,599	792,344
Accumulated depreciation	(31,905)	(359,860)	(90,369)	(151,253)	(86,770)	(720,157)
Net book amount	10,566	39,927	14,865	-	6,829	72,187

Note 10: Right-of-use assets

Accounting Standard

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets under \$10,000. Lease payments on these assets are expensed to profit or loss as incurred.

	Land, buildings and leasehold additions – right-of-use \$	Office furniture and fittings – right-of-use \$	Total \$
Consolidated			
Year ended 30 June 2019			
Opening book amount	-	-	-
Additions	-	-	-
Depreciation charge	-	-	-
Closing book amount	-	-	-
At 30 June 2019			
Cost or fair value	-	-	-
Accumulated depreciation	-	-	-
Net book amount	-	-	-
Year ended 30 June 2020			
Opening book amount	-	-	-
Additions	424,757	47,195	471,952
Disposals	-	-	-
Depreciation charge	(48,816)	(5,424)	(54,240)
Closing book amount	375,941	41,771	417,712
At 30 June 2020			
Cost or fair value	424,757	47,195	471,952
Accumulated depreciation	(48,816)	(5,424)	(54,240)
Net book amount	375,941	41,771	417,712

Note 10: Right-of-use assets (continued)

The Group's buildings and furniture and fittings for its offices are under agreements of two years with, in some cases, options to terminate and options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Note 11: Non-current assets – deferred exploration and evaluation expenditure

Accounting Standard

a. Exploration

Exploration expenditure incurred is accumulated in respect of each identifiable area of interest. The expenditure comprises net direct costs and an appropriate portion of related overhead expenditure directly related to activities in the area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated capitalised exploration expenditure in relation to an abandoned area of interest and/or an area where no mineable ore body is discovered are expensed in the period in which it is determined the area of interest has no future economic benefit.

b. Evaluation

Evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. The expenditure comprises net direct costs and an appropriate portion of related overhead expenditure directly related to activities in the area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

When the technical feasibility and commercial viability of extracting and processing mineral resources have been demonstrated, then any capitalised evaluation expenditure will be classified to mine development and mineral processing development expenditure. Prior to reclassification, capitalised evaluation expenditure is assessed for impairment.

Accumulated capitalised evaluation expenditure in relation to an abandoned area of interest and/or an area where no mineable ore body is discovered are expensed in the period in which it is determined the area of interest has no future economic benefit. When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

Note 11: Non-current assets – deferred exploration and evaluation expenditure (continued)

2020	2019
\$	\$

Exploration, evaluation and development costs carried forward

Balance at beginning of year	100,239,297	93,158,071
Capitalised exploration expenditure	1,696,227	609,619
Capitalised evaluation expenditure ⁽ⁱ⁾	6,905,150	8,181,580
Impairment of exploration expenditure ⁽ⁱⁱ⁾	-	(48,013)
R&D Tax Incentive rebate receipted against capitalised evaluation costs	(1,278,022)	(1,661,960)
Balance at end of year	107,562,652	100,239,297

- i. Capitalised evaluation expenditure is expenditure on the Nolans Project, its proposed design and engineering including pilot plant activities, environmental impact assessments to evaluate, formulate and demonstrate the technical feasibility and commercial viability in developing a rare earths processing plant to process and treat the ore to be mined from the Nolan's Project.
- ii. No tenements were surrendered in the year ended 30 June 2020. Two tenements were surrendered during the year ended 30 June 2019, EL31096 and EL31097, which resulted in the impairment expenditure above of \$48,013.

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

Note 12: Non-current assets – other assets

	2020 \$	2019 \$
Lease Bonds	191,660	101,693
Tenement Bonds	148,666	153,313
	340,326	255,007

Accounting Standards

a. Loans and receivables

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

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

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

Note 13: Current liabilities – trade and other payables

Accounting Standard

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year, which are unpaid. The amounts are unsecured, non-interest bearing and are usually paid within 30 days of recognition.

	2020 \$	2019 \$
<i>Current</i>		
Trade creditors	622,675	275,984
Trade and other accruals	1,134,939	424,917
PAYG and payroll tax liabilities	6,124	21,360
	1,763,738	722,261

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

Note 14: Current and non-current liabilities – lease liabilities

Accounting Standard

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

	2020 \$	2019 \$
<i>Current</i>		
Lease liability	230,543	-
<i>Non-current</i>		
Lease liability	190,672	-

The weighted average incremental borrowing rate applied to the Group's lease liabilities is 5%.

Note 15: Current and non-current liabilities – provisions

	2020 \$	2019 \$
<i>Current</i>		
Annual and long service leave	623,736	580,135
Provision for restoration of evaluation expenditure	107,110	141,850
	730,846	721,985
<i>Non-current</i>		
Long service leave	2,572	7,339

Accounting Standard

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Note 16: Equity – contributed equity

Accounting Standard

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, e.g. as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

	2020 Shares	2019 Shares	2020 \$	2019 \$
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Share capital

Fully paid ordinary shares	1,167,797,430	781,403,114	242,281,597	214,045,526
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Note 16: Equity – contributed equity (continued)

a. Movements in ordinary share capital

Movements in ordinary share capital over the past two years are as follows:

Date	Details	Number of shares	Issue Price	\$
30-Jun-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	3,009,517
20/12/2018	Top Up Placement	23,409,092	0.044	1,030,000
16/04/2019	Share Placement	60,000,000	0.05	3,000,000
	Capital Raising Costs			(868,429)
30-Jun-19	Balance	781,403,114		214,045,526
19/07/2019	Entitlement Offer (First Issue)	150,596,492	0.085	12,800,704
19/07/2019	Entitlement Offer (Shortfall)	120,541,657	0.085	10,246,042
22/07/2019	Entitlement Offer (Balance of Shortfall)	2,352,941	0.085	200,000
17/06/2020	Share Placement	112,903,226	0.062	7,000,000
	Capital Raising Costs			(2,010,675)
30-Jun-20	Balance	1,167,797,430		242,281,597

b. Capital risk management

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

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

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

Note 17: Equity – reserves

Accounting Standard

Share-based payments compensation benefits are provided to employees via the Arafura Resources Ltd Employee Share Option Plan or the Performance Rights Plan as set out in Note 28.

The fair value of options and performance rights granted is recognised as an expense with a corresponding increase in equity over the relevant vesting period. The fair value is measured at grant date using the Black-Scholes or Binomial option pricing model. The cumulative charge to profit or loss is calculated based on the grant date fair value, the best estimate of the number of options that are likely to vest and the expired portion of the vesting period. The number of options and performance rights expected to vest is estimated based on the attaching service and/or performance conditions. The estimates are revised at the end of each reporting period and adjustments are recognised in profit or loss and equity. Upon exercise of options and performance rights, the balance of the share-based payments reserve in relation to those options is transferred to retained earnings.

Market vesting conditions are taken into consideration in determining fair value of the option or performance right at grant date. Non-market vesting conditions are included in assumptions about the number of options and performance rights that are expected to vest. At the end of each period, the entity revises its estimates of the number of options and performance rights that are expected to vest based on non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

	2020	2019
	\$	\$

Reserves

Share-based payments reserve	12,638,758	12,213,590
	12,638,758	12,213,590

Movements

Share-based payments reserve

Balance at beginning of year	12,213,590	11,675,463
Option expense	425,168	538,127
Balance at end of year	12,638,758	12,213,590

a. Nature and purpose of reserves

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

Note 18: Equity – accumulated losses

	2020 \$	2019 \$
Balance at beginning of year	(121,646,220)	(115,792,063)
Net loss for the year	(4,810,958)	(5,854,157)
Balance at end of year	(126,457,178)	(121,646,220)

Note 19: Statement of cash flows reconciliation

	2020 \$	2019 \$
Net (loss)	(4,810,958)	(5,854,157)
Adjustments for:		
Depreciation and amortisation	97,750	184,633
Impairment on assets	-	48,013
Loss on disposal of fixed assets	38,941	171,707
Unrealised FX (gain)	(108)	(229)
Share-based employee benefits	425,168	538,127
Change in operating assets and liabilities:		
(Increase)/decrease in trade & other receivables	(155,843)	147,989
(Decrease)/increase in trade & other payables	(215,499)	43,730
Increase in other provisions	38,834	12,905
Net cash (outflow) from operating activities	(4,581,715)	(4,707,282)

Note 20: Key Management personnel compensation

	2020 \$	2019 \$
Short-term employee benefits	1,314,868	2,148,433
Post-employment benefits	96,489	176,361
Long-term benefits	19,281	39,648
Share-based payments	216,033	485,921
	1,646,671	2,850,363

Detailed remuneration disclosures are provided in sections A-E of the remuneration report on pages 27 to 38.

a. Options provided as remuneration and shares issued on exercise of such options

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

b. Loans to key management personnel

During the 2019 and 2020 financial year, there were no loans to the Directors or other key management personnel.

c. Other transactions with key management personnel

During the 2019 and 2020 financial year, there were no other transactions with the Directors or other key management personnel at any time.

Note 21: Remuneration of auditors

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

	2020 \$	2019 \$
1. Audit services		
<i>BDO Audit (WA) Pty Ltd</i>		
Audit and review of financial reports	55,118	52,427
Total remuneration for audit services	55,118	52,427

	2020 \$	2019 \$
2. Non-Audit services		
<i>BDO Reward (WA) Pty Ltd</i>		
Board and Executive remuneration and Reward Strategy and Policy Framework review	-	8,250
Total remuneration for non-audit services	-	8,250

Note 22: Commitments and contingencies

a. Capital commitments

No significant capital expenditure has been contracted for at the reporting date but not recognised as a liability.

b. Lease commitments - operating:

As of 30 June 2020, all leases held by the Company have been measured in accordance with AASB 16 *Leases* and disclosed within leases liabilities in note 14. The Company adopted AASB 16 on 1 July 2019 using the modified retrospective approach. Comparatives have therefore not been restated and represent amounts committed at 30 June 2019 date but not recognised as liabilities.

	2020 \$	2019 \$
Within one year	-	327,121
Later than one year but not later than five years	-	-
Later than five years	-	-
	-	327,121

c. Mining tenement commitments

	2020 \$	2019 \$
Within one year	232,047	238,697
Later than one year but not later than five years	392,182	104,665
Later than five years	83,450	5,512
	707,679	348,874

In order to maintain current rights of tenure to exploration and mining tenements, the Group has the following discretionary exploration expenditure requirements up until expiry of the tenements. These obligations are not provided for in the financial statements. Commitments associated with the Mineral Leases granted by the Northern Territory Government on 21 July 2020 disclosed in Note 27 have been included in the above amounts.

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

d. Contingencies

No contingent liabilities exist at 30 June 2020 or 30 June 2019.

Note 23: Earnings per share

Accounting Standard

a. Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

b. Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

	2020 Cents	2019 Cents
Basic loss per share		
Basic loss per share (cents per share)	(0.46)	(0.86)
Diluted loss per share		
Diluted loss per share (cents per share)	(0.46)	(0.86)

	2020 \$	2019 \$
Net (loss)	(4,810,958)	(5,854,157)
(Loss) used to calculate basic earnings per share	(4,810,958)	(5,854,157)
(Loss) used to calculate diluted earnings per share	(4,810,958)	(5,854,157)

	2020 Number of shares	2019 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	1,045,408,844	680,829,733
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,045,408,844	680,829,733
Weighted average number of ordinary shares from option conversions which are dilutive and potential ordinary shares that are not used in calculation of diluted earnings per share	-	-

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

Note 24: Related party transactions

a. Parent entity

The parent entity within the Group is Arafura Resources Limited.

b. Subsidiaries

Interests in subsidiaries are set out in Note 25.

c. Key management personnel

Disclosures relating to key management personnel are set out in Note 20.

d. Transactions with related parties

There were no transactions with related parties in the year ended 30 June 2020 or 30 June 2019.

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

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

f. Loans to/from related parties

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

g. Terms and conditions

All transactions were made at cost. Outstanding balances with subsidiaries of the Group are unsecured and repayable in cash.

Note 25: Subsidiaries

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

Name of entity	Country of incorporation	Class of share	Equity holding	
			2020 %	2019 %
Arafura Rare Earths Pty Ltd	Australia	Ordinary	100	100
Arafura Landholdings Pty Ltd	Australia	Ordinary	100	100
Arafura Iron Pty Ltd	Australia	Ordinary	100	100
Arafura Rare Earths Processing Pty Ltd	Australia	Ordinary	100	100

Note 26: Interests in joint operations

The Company is involved in a joint operation with Thor Mining Plc ("Thor") of which Arafura holds 60% of EL 29701 and EL 32167 and Thor holds 40%.

Note 27: Events occurring after the reporting date

In July 2020, the Northern Territory Government granted the Mineral Leases (**MLs**) for the Nolans NdPr Project to Arafura Rare Earths Pty Ltd (**ARE**), a wholly owned subsidiary of Arafura Resources Limited. The MLs host the Nolans mine, process plant, waste storage facilities and accommodation village and are for an initial term of 25 years. Coupled with the executed Native Title Agreement between the Native title holders, the Central Land Council and ARE, the MLs allow for multiple renewals beyond the initial grant term and provides ARE the exclusive right to mine and occupy the MLs to construct and operate the Nolans Project. Subsequent to the grant of MLs, Arafura received its renewed Major Project Status from the Australian Government.

The impact of the COVID-19 pandemic is ongoing and while it has not significantly impacted the Group up to 30 June 2020, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

No other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect:

- the Group's operations in future financial years, or
- the results of those operations in future financial years, or
- the Group's state of affairs in future financial years.

Note 28: Share-based payments

a. Options

The establishment of the Arafura Resources Limited Employee Share Option Plan (ESOP) was approved by shareholders at the 2017 Annual General Meeting. The options are issued for nil consideration and are granted at the discretion of the Board.

The options cannot be transferred, are not quoted on the Australian Stock Exchange (ASX) and carry no dividend or voting rights. The exercise price is based on the weighted average price at which the Company's shares are traded on the ASX during a specified period immediately before the options are granted.

The options expire on the earlier of their expiry date or one month after resignation of the employee (whether vested or not) or upon termination of their employment (unless the Board decides otherwise). The Company has the option of deferral of performance-based remuneration and/or the reduction, cancellation or clawback of the performance-based remuneration in the event of serious misconduct or a material misstatement in the Company's financial statements.

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

No options were issued during the year ended 30 June 2020. Set out below are summaries of options granted and still outstanding at the beginning and/or end of the financial year:

Grant date	Expiry date	Exercise price	Balance at start of year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of year	Vested and exercisable at end of year
			Number	Number	Number	Number	Number	Number

Consolidated – 2020

31-Jul-17	30-Jun-21	\$0.150	1,635,000	-	-	-	1,635,000	1,090,000
31-Jul-18	1-Jul-22	\$0.120	14,325,000	-	-	(170,000)	14,155,000	4,718,331
22-Nov-18	1-Jul-22	\$0.120	4,750,000	-	-	-	4,750,000	1,583,333

Total			20,710,000	-	-	(170,000)	20,540,000	7,391,664
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Weighted average exercise price	\$0.12	\$0.00	\$0.00	\$0.12	\$0.12	\$0.12
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Note 28: Share-based payments (continued)

Grant date	Expiry date	Exercise price	Balance at start of year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of year	Vested and exercisable at end of year
			Number	Number	Number	Number	Number	Number

Consolidated – 2019

30-Sep-14	30-Sep-18	\$0.105	3,150,000	-	-	(3,150,000)	-	-
20-Nov-14	20-Nov-18	\$0.105	3,000,000	-	-	(3,000,000)	-	-
31-Jul-17	30-Jun-21	\$0.150	1,965,000	-	-	(330,000)	1,635,000	545,000
31-Jul-18	1-Jul-22	\$0.120	-	14,605,000	-	(280,000)	14,325,000	-
22-Nov-18	1-Jul-22	\$0.120	-	4,750,000	-	-	4,750,000	-

Total			8,115,000	19,355,000	-	(6,760,000)	20,710,000	545,000
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Weighted average exercise price \$0.12 \$0.12 \$0.00 \$0.11 \$0.12 \$0.15

The weighted average remaining contractual life of the share options outstanding at the end of the period was 1.92 years (2019: 2.93 years).

For options granted and still outstanding at the beginning and/or end of the financial year, 100% of each tranche vests and is exercisable in accordance with the table below.

Grant date	Date vested and exercisable	Expiry date	Exercise price	Model option value	% Vested
31-Jul-17	01-Jul-18	30-Jun-21	\$0.15	\$0.016	100%
31-Jul-17	01-Jul-19	30-Jun-21	\$0.15	\$0.020	100%
31-Jul-17	01-Jul-20	30-Jun-21	\$0.15	\$0.023	0%
31-Jul-18	1-Jul-19	1-Jul-22	\$0.12	\$0.050	100%
31-Jul-18	1-Jul-20	1-Jul-22	\$0.12	\$0.050	0%
31-Jul-18	1-Jul-21	1-Jul-22	\$0.12	\$0.050	0%
22-Nov-18	1-Jul-19	1-Jul-22	\$0.12	\$0.020	100%
22-Nov-18	1-Jul-20	1-Jul-22	\$0.12	\$0.020	0%
22-Nov-18	1-Jul-21	1-Jul-22	\$0.12	\$0.020	0%

Note 28: Share-based payments (continued)

The assessed fair value at grant date of the options given to individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration table in Note 20 and section B of the remuneration report. Fair values at grant date are determined using the Black Scholes option pricing model that take into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and the expected price volatility of the underlying share and the risk-free interest rate of the term of the option. The options are probability weighted for management's best estimate of staff turnover taking into account the period of time to vesting date.

b. Employee Share Scheme - Performance rights

Performance rights in Arafura Resources Limited are granted by the Board under the Arafura Resources Limited Performance Rights Plan which was last approved by shareholders at the 2017 annual general meeting.

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

No performance rights were issued during the year ended 30 June 2020. During the year ended 30 June 2019, the Board approved a total of 10,000,000 performance rights to be offered to senior staff, senior management and the Managing Director. The Managing Director was issued 3,000,000 performance rights based on the approval received at the Annual General Meeting on 22 November 2018. These performance rights were granted in three tranches, remain outstanding as of 30 June 2020 and will vest upon the successful completion of the following performance conditions:

- Tranche 1- completion of the DFS within 25% or better of US\$680m Capex and \$35/kg NdPr Opex (excluding Phosphate credit) for the Company's Nolans NdPr Project and completion of an eligible service period of 24 months from the date the milestone is achieved.
- Tranche 2- Grant of the Mining Lease from the Northern Territory Department of Primary Industry and Resources in relation to the Nolans NdPr Project and completion of an eligible service period of 24 months from the date the milestone is achieved.
- Tranche 3- Project funding secured on term acceptable to the Board to enable project investment decision and completion of an eligible service period of 24 months from the date the milestone is achieved.

The Board has ultimate discretion on whether the performance hurdles have been met. During the year ended 30 June 2019, the Board confirmed that the Tranche 1 milestone was met on 7 February 2019 and will therefore vest after the 24-month service period has been completed. No milestones were met during the year ended 30 June 2020.

The performance rights have been valued at fair value using the share price at grant date. The performance rights are probability weighted at 90%, 80% and 60% (2019: 80%, 60% and 50%) for Tranches 1 to 3 respectively as management's best estimate of the portion that will vest based on the probability of successful completion of the performance conditions and staff turnover.

c. Expenses arising from share-based payment transactions

The total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

Note 28: Share-based payments (continued)

	2020 \$	2019 \$
Options and performance rights issued under the executive & employee option plan and performance rights plan	425,168	538,127
	425,168	538,127

Note 29: Segment information

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

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

Note 30: Parent entity financial information

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

<i>Arafura Resources Ltd (Parent)</i>	2020 \$	2019 \$
Statement of Financial Position		
Total current assets	22,987,641	5,458,489
Total assets	109,746,027	106,064,481
Total current liabilities	2,127,628	1,058,753
Total liabilities	2,320,871	1,451,585
<i>Shareholders' equity</i>		
Issued capital	242,281,598	214,045,526
Option reserve	12,638,757	12,213,590
Accumulated loss	(147,495,199)	(121,646,220)
Total equity	107,425,156	104,612,896
Loss for the year	(25,848,979)	(5,854,157)
Total comprehensive loss	(25,848,979)	(5,854,157)

All commitments and contingencies of the Group are held in the name of the Parent entity. Refer to Note 22 for full disclosure of these items.

DIRECTORS' DECLARATION

Declaration by Directors

The Directors of the Company declare that:

1. The financial statements comprising the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows, Consolidated Statement of Changes in Equity, accompanying notes are in accordance with the Corporations Act 2001, and:
 - a. comply with Accounting Standards, Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - b. give a true and fair view of the financial position as at 30 June 2020 and of the performance for the year ended on that date for the Group.
2. In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
3. In the Directors' opinion, the financial statements and notes are prepared in compliance with IFRS and interpretations alerted by the International Accounting Standards Board.
4. The remuneration disclosures set out on pages 27 to 38 of the Directors' report (as part of the audited Remuneration Report), for the year ended 30 June 2020 complies with section 300A of the Corporations Act 2001.
5. The Directors have been given the declarations by the Managing Director and Chief Financial Officer required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors and is signed on behalf of the Directors.



Mark Southey

Chairman

19 August 2020

INDEPENDENT AUDITOR'S REPORT

To the members of Arafura Resources Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Arafura Resources Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

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

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for opinion

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

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

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

Key audit matters

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

Accounting for Exploration and Evaluation Assets

Key audit matter	How the matter was addressed in our audit
<p>At 30 June 2020, we note that the carrying value of the Deferred Exploration and Evaluation Asset is significant to the financial statements, as disclosed in note 11.</p> <p>As a result, we considered it necessary to assess whether any facts or circumstances exist to suggest that the carrying amount of this asset may exceed its recoverable amount.</p> <p>Judgement is applied in determining the treatment of exploration expenditure in accordance with Australian Accounting Standard AASB 6 Exploration for and Evaluation of Mineral Resources. In particular:</p> <ul style="list-style-type: none"> • Whether the conditions for capitalisation are satisfied; • Which elements of exploration and evaluation expenditures qualify for recognition; and • Whether facts and circumstances indicate that the exploration and evaluation assets should be tested for impairment. 	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining a schedule of the areas of interest held by the Group and assessing whether the rights to tenure of those areas of interest remained current at balance date; • Considering the status of the ongoing exploration programmes in the respective areas of interest by holding discussions with management, and reviewing the Group’s exploration budgets, ASX announcements and directors’ minutes; • Considering whether any such areas of interest had reached a stage where a reasonable assessment of economically recoverable reserves existed; • Verifying, on a sample basis, exploration and evaluation expenditure capitalised during the year for compliance with the recognition and measurement criteria of AASB 6; • Considering whether any facts of circumstances existed to suggest impairment testing was required; and • Assessing the adequacy of the related disclosures in Note 11 of the Financial Report.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group’s annual report for the year ended 30 June 2020, but does not include the financial report and the auditor’s report thereon.

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

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

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



Responsibilities of the directors for the Financial Report

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

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

Auditor's responsibilities for the audit of the Financial Report

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

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

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 27 to 38 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Arafura Resources Limited, for the year ended 30 June 2020, complies with section 300A of the Corporations Act 2001.

Responsibilities

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

BDO Audit (WA) Pty Ltd

Glyn O'Brien

Director

Perth, 19 August 2020

ADDITIONAL INFORMATION

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

1. Shareholder Information

a. Statement of issued capital at 17 August 2020:

i. Distribution of fully paid ordinary shareholders:

Size of holding	Number of shareholders	Number of shares
100,001 and Over	1,384	971,147,661
10,001 to 100,000	4,678	175,674,188
5,001 to 10,000	1,958	15,605,527
1,001 to 5,000	1,629	4,976,964
1 to 1,000	909	393,090
	10,558	1,167,797,430

- ii. There are no restrictions on voting rights attached to ordinary shares. On a show of hands, every member present in person shall have one vote and upon a poll, every member present or by proxy shall have one vote for every share held.
- iii. As at 17 August 2020, there existed 3,013 shareholders who held less than a marketable parcel of shares.
- iv. Fully paid ordinary shares are quoted on the Australian Stock Exchange Limited.

b. Substantial shareholders at 17 August 2020 as per their notices:

Name	Ordinary shares %
J P Morgan Nominees Australia Limited	14.11
ECE Nolans Investment Company Pty Ltd	9.39

ADDITIONAL INFORMATION

c. Top Twenty Shareholders

As at 17 August 2020, the twenty largest shareholders held 496,931,151 of the fully paid ordinary shares in Arafura Resources Limited and they are:

No.	Name	Shares	% of issued
1	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	160,808,638	13.77
2	ECE NOLANS INVESTMENT COMPANY PTY LTD	109,699,833	9.39
3	TALAXIS LTD	55,141,478	4.72
4	CITICORP NOMINEES PTY LIMITED	45,868,314	3.93
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	21,751,860	1.86
6	BNP PARIBAS NOMINEES PTY LTD	19,419,219	1.66
7	CS FOURTH NOMINEES PTY LIMITED	13,421,180	1.15
8	BNP PARIBAS NOMS PTY LTD	10,656,398	0.91
9	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	7,712,417	0.66
10	KAOS INVESTMENTS PTY LIMITED	7,500,000	0.64
11	BNP PARIBAS NOMS PTY LTD	6,999,557	0.60
12	MR JIN KOO LEE	5,355,152	0.46
13	MR DAVID JOHN HARRISON	5,275,000	0.45
14	NEWECONOMY COM AU NOMINEES PTY LIMITED	4,901,480	0.42
15	MR ROBERT PAUL BLAKE & MRS CHRISTINE MARGARET GIBSON	4,400,000	0.38
16	MR NICOLAS STOTT	4,187,610	0.36
17	PACIFIC ENERGY LIMITED	3,829,269	0.33
18	MR TIN SHEE CHEE & MRS YIN MUI CHEE	3,454,319	0.30
19	MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED	3,284,427	0.28
20	MR CHRISTOPHER DAVID JOHNSON	3,265,000	0.28
		496,931,151	42.55

ADDITIONAL INFORMATION

2. Tenement Register as at 17 August 2020

Tenement reference	Project	Holder	Nature of interest	Interest at beginning of quarter	Interest at end of quarter	Notes
ML 26659	Nolans, NT	Arafura Rare Earths Pty Ltd	Mineral Lease	100%	100%	Granted 21 Jul 2020
ML 30702				100%	100%	Granted 21 Jul 2020
ML 30703				100%	100%	Granted 21 Jul 2020
ML 30704				100%	100%	Granted 21 Jul 2020
ML 32411				-	100%	Application Lodged
ML 32412				-	100%	Application Lodged
ML 32413				-	100%	Application Lodged
ML 32414				-	100%	Application Lodged
ML 32415				-	100%	Application Lodged
ML 32416				-	100%	Application Lodged
EL 28473 EL 28498 EL 29509 EL 31224 EL 31284 EL 31957	Aileron–Reynolds, NT	Arafura Resources Ltd	Exploration Licence	100% 100% 100% 100% 100% 100%	100% 100% 100% 100% 100% 100%	
EL 29701	Bonya JV, NT	Arafura Resources Ltd	Exploration Licence	60%	60%	Thor Mining Plc 40%, Arafura Resources Limited 60%
EL 32167	Jervis Vanadium, NT	Arafura Resources Ltd	Exploration Licence	60%	60%	Thor Mining Plc 40%, Arafura Resources Limited 60%