



A R A F U R A
RESOURCES LIMITED

ANNUAL REPORT 2021



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30 June 2021

Arafura Resources Limited | ABN 22 080 933 455

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CORPORATE DIRECTORY

Directors	<p>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</p>
Company Secretary	<p>Peter Sherrington Catherine Huynh</p>
Annual General Meeting to be held at	<p>BDO Audit (WA) Pty Ltd 38 Station Street Subiaco WA 6008</p>
Time	<p>10:00am (WST)</p>
Date	<p>Thursday, 21 October 2021</p>
Closing date of director elections	<p>2 September 2021 Nominations must be received at Company's registered office by 5:00pm (AWST) on this day.</p>
Principal registered office in Australia	<p>Level 6, 432 Murray Street Perth WA 6000</p>
Share Registry	<p>Link Market Service Ltd QV1 Building, Level 12, 250 St Georges Terrace Perth WA 6000</p>
Auditors	<p>BDO Audit (WA) Pty Ltd 38 Station Street Subiaco WA 6008</p>
Solicitors	<p>Johnson Winter and Slattery Level 4, 167 St Georges Terrace Perth WA 6000</p>
Bankers	<p>Westpac Banking Corporation Tower 2, Level 3 123 St Georges Terrace Perth WA 6000</p>
Stock Exchange Listings	<p>Arafura Resources Limited shares are listed on the Australian Stock Exchange under the ticker code "ARU".</p>
Website	<p>www.arultd.com</p>

CHAIRMAN'S REPORT

Dear Shareholders,

On behalf of the Arafura Resources Board of Directors, it is my pleasure to present the 2021 Annual Report.

The 2021 financial year was a critical year for Arafura. With strengthening rare earths pricing and increased interest from financiers and potential offtake partners as well as optimisation of the process plant design and mine scheduling following the Ore Reserve update, there was a strong case to review the findings from the Definitive Feasibility Study delivered in 2019. With extremely positive results, confirming the financial viability of the Nolans Project, this has enabled us to prepare for Front-End Engineering and Design (FEED), a critical step to progress the commercialisation of Nolans NdPr Project towards offtake and project funding.

As the world focuses on ESG, Arafura has set its goal "to be a trusted global leader and supplier of choice for sustainably mined rare earth products, helping our customers deliver clean and efficient technologies. We are committed to delivering positive intergenerational economic, environmental and social benefits to our stakeholders". With our FEED strategy in motion, climate change and greenhouse gas emissions remain a critical global issue. Arafura has committed to achieve net zero carbon emissions by 2050, with its greenhouse gas reduction options study well advanced to set interim targets to meet this goal.

I would like to take this opportunity to address some key highlights, before Gavin Lockyer, our Managing Director, provides a comprehensive update on key progress made this year.

Project Update

Following completion of the pilot program, samples were provided to supply chain partners in Europe, China and Japan for validation. As expected, all confirmed that our product was well within required key specification for use in their processes, a great achievement that paves the way for further commercial negotiations with our potential partners.

The feasibility study update follows extensive work from the Arafura team and confirmed ultra-low operating costs of US\$24.76/kg NdPr oxide and robust financial metrics for the Nolans Project, showing an outstanding NPV of \$1.4

RARE EARTHS ARE AN ESSENTIAL PART OF TODAY'S LIFESTYLE & THE MODERN ECONOMY.



WIND
TURBINES



ELECTRIC
VEHICLES



ROBOTS



MRI
MACHINES



PHONES &
TABLETS

CHAIRMAN'S REPORT

billion and average EBITDA of A\$354 million per annum. It incorporates key improvements following the completion of the pilot program, allowing elements of the process flowsheet to be refined or optimised. Additionally, the process plant design was reviewed, resulting in the deferral of cerium production to allow us to focus on the ramp-up of on-specification high value NdPr production given the forecast supply shortage. Finally, to optimise the production profile and economic outcomes at Nolans, an updated mine scheduling was used based on the updated Ore Reserves and also include an associated minor increase in concentrate processing capacity. These outstanding results now form the basis of all our discussions with potential financiers and offtake partners.

Nolans is the only Australian domiciled project to have secured its development tenure, following the grant of its primary mineral leases in July 2020. Through the year, I am happy to confirm that all ancillary mineral leases to host the Nolans borefield in support of the mine and processing plant and allowing for the construction of a water diversion channel have been granted. Having already secured both Federal and State environmental approvals, Nolans remains the only fully permitted ore to oxide rare earths project in Australia. With increasing requirements internationally for traceability of product and sustainable supply chains to meet ESG standards, Arafura's strategy is fast becoming realisable as the ideal global solution for NdPr product.

With renewed Major Project Status by the Australian Government for a further three years, Arafura retains ongoing focused support from the Australian Government's Major Projects Facilitation Agency (MPFA) with Nolans recognised as an economically and strategically significant asset to Australia. During the year, the Territory Benefits Plan was approved by the Northern Territory Government, concurrently meeting the requirements of the Commonwealth Government's Australian Jobs Act. Coupled with the Indigenous Engagement Strategy released in the prior year, we continue to make strong commitments to the local community and as such retain our social license to operate.

NdPr Market

The demand for NdPr has increased more than anticipated, with tightening supply globally driven by the need for global powers to secure their supply chains of critical materials which are both sustainable and traceable, with rare earths continuing to be recognised as a priority in the accelerated electrification of transport and renewable energy transitions to meet ambitious climate targets many countries are adopting and bringing into policy. With market analysts forecasting that NdPr oxide demand to increase to 98kt by 2030, Arafura is well placed to meet the potential supply gap by supplying up to 10% of the world's rare earth magnet supply from the Nolans Project. NdPr oxide prices strengthened through the financial year, increasing by 78% overall, and looks to continue to strengthen through the coming years.

The year has seen many countries looking to secure and establish alternate processing and refining capabilities away from the traditional structures through the diversification of supply chains with similarly aligned countries. The introduction of China's Export Control Law highlighted the importance of alternative secure sources of rare earth products, with the Made in China 2025 Strategy continuing focus on e-mobility and renewables domestically. In Europe, the European Commission has adopted the EU Action Plan on Critical Raw Materials by identifying critical raw material mining and processing projects which are likely to be operational by 2025, again, rare earths are identified as a priority and emphasis made on developing partnerships with countries strongly aligned with ESG standards. The UK introduced the Rules of Origin standard to encourage domestic production of EV components to promote economic recovery and ensure ESG standards of production and manufacturing. Germany brought in the draft Corporate Due Diligence in Supply Chains Act to ensure ESG standards and traceability are met through the entirety of supply chains.

Within Australia, the Critical Minerals Strategy promotes investment in Australia's critical minerals sector and expansion of value-add downstream processing domestically;

CHAIRMAN'S REPORT

Arafura has always been closely aligned with these priorities, with Nolans being the only ore to oxide project in Australia, with all the value-add processing occurring on a single site making traceability very clear and concise. We believe this makes our Project stand out, with Nolans demonstrating clear alignment with these strategies from day one.

Financing Strategy

Discussions with potential offtake partners in Japan, Europe, South Korea and the USA have continued to progress positively. With changes to global priorities around sustainability and ESG standards, Nolan's strong alignment with sustainability goals has lined up perfectly with the changing mandates of key end users. Nolan is becoming more evident as the supplier of choice for the world to meet their objectives of establishing a secure supply of NdPr oxides from a sustainable mining and processing source in the secure jurisdiction of Australia.

Domestically, increased support from the Australian Government has been matched with non-binding letters of support from both Export Finance Australia and the Northern Australian Infrastructure Facility for senior debt facilities of \$200m and \$100m respectively, both for a 15-year term. With sovereign support now achieved, we will continue to engage with key banks, advisors and export credit agencies (ECA) to

execute our debt-led strategy from ECA backed debt to attract project equity.

Arafura is exceptionally well-placed to capitalise on the ever-escalating global demand given the strengthening in NdPr prices and forecast shortage in this product. Our core values regarding environmental impact and multigenerational benefit to community, in which we have always taken pride in, are only becoming more important to the needs of customers. With strong project economics, secured development tenure and our social license to operate, we have never been better placed to execute the Nolans Project.

In closing, I would like to thank the Board of Directors, our Managing Director Gavin Lockyer, and his team for their hard work during a progressive year for the company. We are very optimistic about the year ahead in getting the Nolans Project fully funded and ready for production right when the global economy is desperate for a secure and alternate supply of our critical mineral.



Mark Southey

Chairman

MANAGING DIRECTOR'S REPORT

I am pleased to report the 2020/21 financial year saw important progress towards Nolans Project reaching shovel-ready status. Key gains with stakeholders across regulatory, community, technical, commercial and most importantly our customers have put the Company on a strong path towards Final Investment Decision targeted in H2 2022.

We are focused on securing project finance and offtake agreements to meet this timetable while we make strong progress on the piloting of the ore-to-oxide flowsheet. Our recent capital raising has given us the funds necessary to commence Front End Engineering & Design work.

Federal Minister pledges support for Nolans

The strategic importance of our product is becoming more evident as emerging issues around global supply chains tighten. The Nolans Project shows strong alignment with Australia's Critical Minerals initiatives and the drive to increase domestic value add processing. As we continue to pursue different Commonwealth and Territory government support, it is encouraging to see our leaders in government understanding the value Arafura Resources will add to Australia's sovereign capabilities in addition to the role we can play by adding an alternate, secure and independent supply to the global market.

This support has extended beyond raising awareness in Parliament, with the Northern Australia Infrastructure Facility and Export Finance Australia both indicating conditional support for the project in financial terms with \$100 million and \$200 million respectively pledged over a 15-year term. It is a strategic priority of the management team to pursue other funding opportunities provided by the Commonwealth Government which are focused on building our critical minerals industry, securing supply chains, and adding value to our local community and economy through on-site manufacturing rather than simply shipping ore offshore.

Environmental, Social, Governance

We have always held the overarching goal that the Nolans Project would deliver substantial social and economic benefits to the local community, as well as regional and national stakeholders at a multigenerational level, as well as sensitively managing progressive site rehabilitation and on-site management and disposal of waste.

Building on the goals of the Projects Territory Benefits Plan, Arafura has focussed on local indigenous employment and supplier development with a strong emphasis on cultural respect and cultural heritage and environmental management to ensure local indigenous landowners are engaged and part of our project's future, there will be indigenous and local employment opportunities with the Nolans Project, both during construction and operations, with royalties and potentially shared infrastructure also benefitting the local

MANAGING DIRECTOR'S REPORT

community. Arafura sponsors the Young Indigenous Art & Literacy Program at Ti-Tree and Laramba remote schools located in the Northern Territory, which is run by the Children's Charity Network.

Arafura is well advanced with a greenhouse gas (GHG) reduction options study which will set interim targets on the Company's journey toward net zero carbon emissions. Arafura's application for an ancillary Mining Lease Application (MLA 32722) is for the future construction of a substantial solar farm to offset power production from natural gas. Further planning and design of this green power facility, and other similar measures, will be outlined in the GHG study. Arafura's single site processing model provides a traceable product and waste management certainty which is aligned with customers' ESG expectations.

In addition, Arafura is currently completing its second sustainability report which is due for release in Q3 2021.

To ensure global external accountability across the full range of activities at Nolans, Arafura has applied to join both UN Global Compact and the Initiative for Responsible Mining Assurance (IRMA) and has received Pending Member status.

Offtake progress

Arafura continues to advance its rare earth product offtake arrangements with parties in Japan, Europe, South Korea, the USA, and for our phosphoric acid product with parties in India.

With an ever-increasing focus on sustainability and strict requirements relating to ESG standards, Arafura's sustainability goals, and the fact we are offering an alternate and secure supply, align well with what our customers expect and need. In particular, commercial discussions to secure offtake arrangements with European partners, which are seeking alternative supply sources from transparent and ESG compliant suppliers are all progressing positively.

We continue to advance discussions on key terms with various European end users in the automotive and wind industry. Strategic objectives of European NdFeB magnet buyers are highly aligned with Arafura's product offering. Europe had already identified the need for a European magnet supply chain to support manufacturing across

many strategically important growth industries. European customers' immediate objectives are to establish supply security and jurisdictional diversification of the NdFeB magnet supply chain and traceable product from a sustainable mining and processing source.

Cash position

Arafura had a strong cash position of \$10.8 million at 30 June 2021. The two-tranche Placement and Share Purchase Plan (SPP) will raise A\$45.5 million to commence FEED and for general working capital purposes. With strong support received from international and domestic institutional investors, Tranche 1 and Tranche 2 have already settled to raise \$40 million before costs. Due to the high level of shareholder interest and participation the SPP closed early and is expected to settle on 20 August 2021 to raise \$5.5 million before costs.

Focused on FID in 2022

In closing, I would like to extend my appreciation and thanks to our shareholders, the Board of Directors, and the management team for the support and hard work over the last year. I am confident that after the progress we've made in the last twelve months, Arafura Resources is in a strong position to reach our goals on the road to a Final Investment Decision in mid-2022.

Finally, as I have done time and time again, 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

OPERATIONS REPORT

Nolans NdPr Project

Execution Readiness

The integrated project management team (**IPMT**), which includes KBR and Wave International, has continued preparation works for project delivery, with focus initially on commencement front-end engineering and design (**FEED**). The scope of work for the engineering and procurement (**EP**) services for the hydrometallurgical plant has been issued to a selection of Tier 1 engineering contractors, with recommendation for award for development of the design (to approximately 60%) due to be made in August 2021, and the FEED program to commence shortly after. Completion of the design and assistance with commissioning and ramp up will be awarded after final investment decision (**FID**), which is targeted in the second half of 2022.

Project Update

The IPMT completed work on the Project Update after finalisation of the extensive metallurgical pilot test work program, which resulted in several process flowsheet modifications since the completion of the definitive feasibility study (**DFS**) and to further optimize the metallurgical performance of the circuit. In the process plant design, the production of cerium was deferred to allow for focus on the ramp up of on specification high value NdPr production. Changes were also made to the mine scheduling, factoring in the updated ore reserve.

The outcomes of the feasibility study update, key project information and updated financial metrics are shown in the table below.

Key Project Information		
Mining and Production		
Mine Life (years)		38
NdPr Oxide (tpa)		4,440
SEG/HRE Oxide (tpa)		474
Phosphoric Acid (tpa 54% P2O5 MGA)		144,393
Financial	US\$	A\$
Capital Cost (\$m)	768	1,056
Rare Earth Sales Revenue (\$m/annum)	388	534
Phosphoric Acid Sales Revenue (\$m/annum)	58	79
Mining Costs (\$m/annum)	(30)	(42)
Processing Costs (\$m/annum)	(105)	(145)
General and Administration Costs (\$m/annum)	(15)	(21)
EBITDA (\$m/annum)	257	354
KPI Analysis	US\$	A\$
Operating Cost \$/kg NdPr	33.91	46.60
Operating Cost \$/kg NdPr net of P2O5 credit	24.76	34.06
NPV8 after tax (\$m)	1,011	1,402
IRR after tax (%)		18.1%

Note: Numbers may not compute because of rounding. Average revenue, costs and EBITDA are calculated as the arithmetic annual average following the anticipated two year ramp up period and excluding the final years of production from low grade stockpiles.

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As part of the feasibility study update, financial analysis was also carried out for an Ore Reserves only case to demonstrate that the Project viability is not reliant on Inferred Mineral Resources included in the mining inventory. This production schedule over 29-years, including a two-year ramp up and approximately two years at the end of the LOM processing low grade material off long term stockpiles, delivers a A\$1,229m NPV at 8% discount rate, and IRR of 17.88% and average operating costs of US\$26.09 per kg of NdPr net of phosphoric acid by-product credit.

The updated cost estimates and financial outcomes reported in the Nolans Project Update form the basis of discussions to finalise funding for Nolans.

Geology and Mineral Resources

The feasibility study update is based on the Mineral Resources for the Nolans Bore deposit announced in June 2017 which is unchanged from the Mineral Resources used in the DFS. The Company confirms that it is not aware of any new information or data that materially affects the information included in this previous announcement of Mineral Resources and that all material assumptions and technical parameters underpinning this estimate continue to apply and have not materially changed. The Company continues to review the geological model in preparation for detailed mine planning activities which will incorporate the results of the small 2019 drilling program and a review of the logging of the host rocks. The Company confirms that this additional work should lead to an increase in Mineral Resources, but is not expected to materially change the Mineral Resource estimate for the Project.

Mining and Ore Reserves

The pit optimisations, mine designs, Ore Reserves and mining inventory are unchanged from the Updated Mining Study completed in March 2020. The Company confirms that it is not aware of any new information or data that materially affects the information included in this previous announcement of Ore Reserves and that all material assumptions and technical parameters underpinning this estimate continue to apply and have not materially changed.

The Ore Reserves include mining factors of 5% for ore-loss and 15% for dilution which leads to the marginal increase in Proved Reserves from Measured Resources.

Pit designs were undertaken using Surpac software, allowances

were made for the recommended pit wall angles, and pit ramps suitable for the selected mining equipment were incorporated. As the final pit designs were derived, Inferred Resources were included within the mining inventory. This material is excluded from the Ore Reserves and from mill feed in the Ore Reserves only production schedule for reporting purposes.

The Project, and the pit designs developed by Mining Plus, do not rely on the inclusion of Inferred Mineral Resources as mill feed in order to be feasible.

Offtake and Funding

Arafura continues to advance its offtake arrangements with tier-one automotive and wind turbine companies in Japan, Europe, South Korea and North America for its rare earth product and with major fertilizer companies in India for its phosphoric acid product. For its rare earth product, strong alignment with customer sustainable procurement goals is well received and is becoming an increasingly important consideration in the global transition towards renewable energy and mobility electrification. In particular, European customers have immediate objectives to establish supply security and jurisdictional diversification of the NdFeB magnet supply chain and traceable product from a sustainable mining and processing source.

Arafura's supply chain model offers customers the opportunity to establish complete raw material, mine to magnet traceability, enabling the buyer the option to direct the NdPr metal to existing mass production magnet manufacturers in China or Japan, alternatively the necessary feed to establish new magnet production capacity in other jurisdictions. The Company is negotiating a formal Toll Processing contract with its metal tolling partner, with details of these arrangements to be announced if (and when) formal agreements have been executed. This provides Arafura with a product that is marketable to a broader tier-one customer base along with achieving the forementioned strategic benefits.

Project funding discussions continue based on Arafura's debt-led strategy to leverage the halo effect of an ECA-backed debt structure to attract project equity. With the increasing geopolitical focus on supply chain risk for critical raw materials, the Nolans Project is becoming more aligned with key mandates of Export Credit Agencies (**ECA**). Support from the Australian Government

OPERATIONS REPORT

remains critical, with the Company receiving a non-binding letter of support from Export Finance Australia (EFA) for a proposed senior debt facility of up to A\$200 million over a 15-year term and a without commitment letter from the Northern Australia Infrastructure Facility (NAIF) for a proposed senior debt facility of up to A\$100 million over a 15-year term.

Technology Programs

In January 2021, the Company completed its metallurgical test work, analysis and reporting for the Nolans phosphoric acid pre-leach flowsheet, with changes being incorporated into the flowsheet design to improve commissioning, production ramp-up and NdPr recovery. These process design elements provide significant risk mitigation outcomes and were incorporated in the Project Update to form the basis of discussions with potential financiers. Following the successful completion of its 7-phase flowsheet piloting program in the last year, samples were sent for assessment and feedback with potential customers. Arafura received validation from supply chain partners across the globe, including in Europe, China and Japan that its rare earth oxide products were well within compositional specifications for use in their processes.

Domestic Stakeholder Engagement

Major Project Status

With Major Project Status recognising that Nolans is an economically and strategically significant asset to Australia and in particular the Northern Territory, Arafura has continued its close engagement with the Territory and Australian Governments, Northern Territory Government business facilitation agencies and other key stakeholders. Strong engagement activities continued with key Northern Territory Ministers and Bureaucrats and also with Commonwealth Ministers during the quarter which has maintained governments focus on the strategic and economic importance of the Nolans Project.

The projects Territory Benefits Plan was approved by Northern Territory Government and has also met the requirements of the Commonwealth Governments, Australian Jobs Act. The plan outlines Arafura commitments in meeting many benefits that are anticipated to flow to the government, the business and broader community as a consequence of the development of the Nolans Project.

The Company's Major Project Status was renewed for a three-year term by the Australian Government in July 2020. The Territory Benefits Plan will be central to ensuring the Company continues to build on the community's acceptance of the project and retains its social license to operate.

Project Mining Tenure

With its Native Title Agreement executed in June 2020, Arafura secured its mineral leases with the Northern Territory Government in July 2020 for its cornerstone development tenure comprising ML 26659 (Nolans Bore mineral resource, open pit mine, waste rock dumps), ML 30702 (accommodation village), ML 30703 (tailings, gypsum and water leach residual storage facilities) and ML 30704 (process plant area, which includes the beneficiation, phosphate extraction, rare earth extraction, rare earth processing and rare earth separation facilities, and supporting infrastructure). Additionally, the ancillary mineral leases encompassing individual borefields (MLs 32411- 32415) and an ephemeral drainage diversion channel (ML 32416) were granted in February 2021, securing access to the water resource.

To future proof its development and in line with the Company's commitment to Net Zero Greenhouse Gas emissions by 2050, the Company lodged one additional ancillary Mining Lease application in May 2021 (MLA 32722) for the future construction of a substantial solar farm to offset power production from natural gas.

Operational Licencing

Work on the detailed mining management plan (MMP) and its associated environmental management plans (EMPs) for the construction and initial operational period of the project continues. All plans are being finalised and the Company is targeting submission of the overarching MMP document early in the new year and submission of all remaining EMPs following shortly.

Preparation of an updated groundwater extraction license to the Northern Territory Department of Environment Parks and Water Security is nearing completion and expected to be lodged in the new year. The application has required some rework as a consequence of changed project water demand requirements and demonstrates the borefield can easily accommodate the increases in water demand.

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Compliance Statements

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.

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.

The stated TREO grade is based on the sum of the estimated grades for La2O3, CeO2, Pr6O11, Nd2O3, Sm2O3, Eu2O3, Gd2O3, Tb4O7, Dy2O3, Ho2O3, Er2O3, Tm2O3, Yb2O3, Lu2O3 and Y2O3.

The Mineral Resources were further classified by geometallurgical material types based on logging and analysis. Details of the material classification are contained in the DFS.

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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.

Mineral Resources and Ore Reserves

The information in this report that relates to Mineral Resources is extracted from the Company's 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 is extracted from the Company's 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 Resources confirms that it is not aware of any new information or data that materially affects the information included in the 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 Resources confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcements.

Production Targets and Forecast Financial Information

The information in this report that relates to production targets and forecast financial information is extracted from the Company's ASX announcement dated 11 May 2021 (Nolans Project Update). The production target is based on 12% Proved Reserves, 62% Probable Reserves and 26% inferred resources as reported in the Company's ASX announcement dated 11 May 2021. There is a low level of geological confidence associated with inferred mineral resources and there is no certainty that further exploration work will result in the determination of indicated mineral resources or that the production target itself will be realised. Arafura confirms that all material assumptions underpinning the production target and forecast financial information derived from the production target set out in the Company's ASX announcement dated 11 May 2021 (including any assumptions referred to in the Company's ASX announcement dated 11 May 2021 that were sourced from the DFS as set out in the Company's ASX announcement dated 7 February 2019 (Nolans Project Definitive Feasibility Study) or from the Updated Mining Study as set out in the Company's ASX announcement dated 16 March 2020 (Major Increase in Mine Life for the Nolans Project)), continue to apply and have not materially changed.

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 2021.

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

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 \$6,480,429 for the year ended 30 June 2021 (2020: \$4,810,958). The loss is higher than 2020 as a result of ramp up in engineering activities undertaken by the Integrated Project Management Team in preparation for FEED expected to commence in August 2021. Additionally, the Group incurred increased expenditure from project funding workstreams.

On 24 June 2021, the Company launched an A\$40 million placement to raise funds to commence FEED activities at the Company's Nolans Project and for general working capital purpose. The Company received firm commitments from Australian and overseas institutional and sophisticated investors. The Placement was offered over two tranches at an offer price of \$0.12 per share. Tranche 1 was completed under the Company's placement capacity and settled on 2 July

2021. Tranche 2 of the placement settled on 13 August 2021 following shareholder approval at a General Meeting held on 9 August 2021.

Concurrently, the Company launched a Share Purchase Plan (**SPP**) targeting A\$5.5m to enable eligible existing shareholders on the Company's share register at 7.00pm (EST) on 23 June 2021 with registered addresses in Australia and New Zealand the opportunity to apply for new shares at the same offer price as the Placement without paying brokerage or transaction costs. The issue of new fully paid ordinary shares under the SPP was approved by shareholders at a General Meeting held on 9 August 2021. Applications for new shares under the SPP closed early on 13 August 2021 due to the high level of shareholder interest and participation and is expected to settle on 20 August 2021.

Significant changes in the state of affairs

- 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. Subsequently in February 2021, MLs, which will host the Nolans borefield, were granted to ARE for an initial term of 25 years by the Northern Territory Minister for Mining and Industry to provide exclusive access for the construction, use and maintenance of the borefield to support the operations of the mine and processing plant.
- In May 2021, the Nolans Project Update was released incorporating updates to the process flowsheet, mining schedules, operating and capital cost estimates, rare earth and phosphoric acid by-product prices. The Project Update confirmed the Nolans Project's ultra-low operating cost of US\$24.76/kg NdPr oxide and robust financial metrics of NPV \$1.4 billion based on a life of mine of 38 years.
- During the period final rare earth oxide (REO) products from the Nolans flowsheet piloting program were validated by supply chain partners across the globe, including in Europe, China and Japan, and deemed to be well within required key specifications for use in their processes.
- Incorporating feedback from potential contracting, offtake and financing partners, Arafura modified the execution strategy for the Nolans Project to a traditional detailed

DIRECTOR'S REPORT

front-end engineering and design (**FEED**) model. The FEED model will increase competitive tension between engineering and construction tenderers, reduce risk for the construction contractor lowering contingency and risk premiums and provide a high level of cost certainty for the Project, improving the confidence of potential project financiers.

- In May 2021, the Company received a non-binding letter of support from the Australian Government's ECA, Export Finance Australia (EFA) for a proposed senior debt facility of up to A\$200 million over a 15-year term. Subsequently in June 2021, the Company received a without commitment letter of support from the Northern Australia Infrastructure Facility (NAIF) for a proposed senior debt facility of up to A\$100 million over a 15-year term.

Matters subsequent to the end of the financial year

Given the strong interest in the SPP the Board decided to accept the maximum amount under the SPP (of \$5.5 million) and close the SPP early to minimise the impact of any potential scale back of applications.

The SPP closed at 5.00pm (Sydney time) on 13 August 2021, instead of the previously planned closing date of 23 August 2021.

No other matter or circumstance has arisen since 30 June 2021 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 Company intends to commence FEED activities in August 2021 following the recent placement and SPP which raised \$45.5 million before costs. Concurrently, the Company will accelerate offtake and project funding opportunities with Final Investment Decision targeted in August 2022.

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.

DIRECTOR'S REPORT

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

225,000 ordinary shares in Arafura Resources Limited (Direct)

275,000 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

3,166,666 unlisted options in Arafura Resources Limited (Indirect)

2,252,726 ordinary shares in Arafura Resources Limited (Indirect)

2,500,000 performance rights in Arafura Resources Limited (Direct)

DIRECTOR'S REPORT

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

Pacgold Limited – Chairman

Pearl Gull Limited - Non-Executive Director

WA Kaolin Limited – Non-Executive Director

Australian Potash Limited - Non-Executive Director

Podium Minerals Ltd – 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

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 2021 were:

As at 30 June 2021 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 Management Committee and a member of the Remuneration and Nomination Committee.

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	12	12	4	4	3	3
Gavin Lockyer	12	11	-	-	-	-
Chris Tonkin	12	11	4	4	3	2
Quansheng Zhang	12	10	-	-	-	-
Cathy Moises	12	12	4	4	3	3

DIRECTOR'S REPORT

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 2021.

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 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, two of which have been achieved, being the completion of the Nolans Project DFS and grant of the Mining Leases.

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

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

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*.

DIRECTOR'S REPORT

A Principles used to determine the nature and amount of remuneration

For the 2021 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 marketplace.

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.

As a result of COVID-19, Non-Executive Director base remuneration was not reviewed during the period.

The above fees are per annum and include superannuation.

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

Fees	Year ended 30 June 2021	Year ended 30 June 2020
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.*

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.

DIRECTOR'S REPORT

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 2021 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.

Under the Company's Option Plan approved by shareholders at the general meeting held on 22 October 2020, 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 22 October 2020, 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 2021 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 2021 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 2021, 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 31 and 32 respectively.

DIRECTOR'S REPORT

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 2020 Annual General Meeting

Arafura Resources Ltd received more than 92% of "for" votes on its remuneration report for the 2020 financial year.

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

DIRECTOR'S REPORT

Details of remuneration

2021	Short-term benefits			Post-employment benefits	Long-term benefits		Share-based payments		Total
	Cash salary and fees	Bonus	Non-monetary benefits	Super-annuation	Long service leave	Termination benefits	Options and Performance Rights	% share based payments	
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	71,598	-	-	6,802	-	-	-	-	78,400

Executive Directors

G Lockyer	401,100	-	-	25,000	8,650	-	6,046	1.40%	440,796
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Other key management personnel (Group)

P Sherrington	344,517	-	-	25,000	13,029	-	14,477	3.60%	397,023
S Watkins	296,722	-	-	21,694	6,545	-	21,982	6.30%	346,943
Total	1,400,419	-	-	100,014	28,224	-	42,505		1,571,162

DIRECTOR'S REPORT

Details of remuneration

2020	Short-term benefits			Post-employment benefits	Long-term benefits		Share-based payments		Total
	Cash salary and fees	Bonus	Non-monetary benefits	Super-annuation	Long service leave	Termination benefits	Options and Performance Rights	% share based payments	
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	14.40%	507,877
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Other key management personnel (Group)

P Sherrington	316,100	-	15	25,000	6,291	-	66,184	16.00%	413,590
S Watkins	268,997	-	21	21,003	4,847	-	76,603	20.60%	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

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 2021 financial year:

G Lockyer, Managing Director

- No term of agreement.
- Base salary inclusive of superannuation, for the year ended 30 June 2021 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 2021 of \$372,100.
- 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 2021 of \$321,000.
- 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.

DIRECTOR'S REPORT

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 2020 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.

No options were issued to Directors or other key management personnel during the year ended 30 June 2021.

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.

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

DIRECTOR'S REPORT

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 2021 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 2021.

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 2020 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 vest upon the successful completion of the following performance and service 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 conditions have been met. The conditions attaching to 2,050,000 Tranche 1 performance rights, of which 1,000,000 were held by the Managing Director and other key management personnel, were satisfied on 7 February 2021, on the passing of 24 months from the date of completion of the Nolans Project definitive feasibility study. On vesting, the performance rights were automatically exercised into 2,050,000 fully paid ordinary shares. In addition, during the period the Board confirmed that the Tranche 2 performance condition was met on 22 July 2020. The Tranche 2 performance rights will vest after the 24-month service condition has been completed.

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 2020 and 2021 financial year, there were no loans to the Directors or other key management personnel.

Other transactions with key management personnel

During the 2020 and 2021 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 2021

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
Directors of Arafura Resources Limited							
M Southey	-	-	-	-	-	-	-
G Lockyer	4,750,000	-	-	-	4,750,000	1,583,333	3,166,666
C Tonkin	-	-	-	-	-	-	-
Q Zhang	-	-	-	-	-	-	-
C Moises	-	-	-	-	-	-	-
Key management personnel of the Group							
P Sherrington	2,950,000	-	-	(300,000)	2,650,000	883,333	1,766,666
S Watkins	3,375,000	-	-	-	3,375,000	1,125,000	2,250,000
Total	11,075,000	-	-	(300,000)	10,775,000	3,591,666	7,183,332

DIRECTOR'S REPORT

Movements in performance rights of Key Management Personnel for 30 June 2021

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	-	(500,000)	-	2,500,000	500,000	-
C Tonkin	-	-	-	-	-	-	-
Q Zhang	-	-	-	-	-	-	-
C Moises	-	-	-	-	-	-	-
Other key management personnel of the group							
P Sherrington	1,450,000	-	(250,000)	-	1,200,000	250,000	-
S Watkins	1,350,000	-	(250,000)	-	1,100,000	250,000	-
Total	5,800,000	-	(1,000,000)	-	4,800,000	1,000,000	-

Movements in share interests of Key Management Personnel for 30 June 2021

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year (on market trades and vesting of performance rights)	Balance at the end of the year
Directors of Arafura Resources Limited				
M Southey	337,500	-	162,500	500,000
G Lockyer	1,752,726	-	500,000	2,252,726
C Tonkin	322,160	-	-	322,160
Z Quansheng	-	-	-	-
C Moises	307,521	-	-	307,521
Key management personnel of the Group				
P Sherrington	691,569	-	250,000	941,569
S Watkins	-	-	250,000	250,000
Total	3,411,476	-	1,162,500	4,573,976

This is the end of the audited remuneration report.

DIRECTOR'S REPORT

Insurance of officers

During the 2020 and 2021 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 2021.

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 35.

Signed in accordance with a resolution of the Directors.



Gavin Lockyer

Managing Director



Mark Southey

Chairman

Perth, Western Australia

18 August 2021

CORPORATE 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 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.

AUDITOR'S INDEPENDENCE DECLARATION



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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 2021, 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.

A handwritten signature in black ink, appearing to read 'Glyn O'Brien', with a long, sweeping horizontal stroke extending to the right.

Glyn O'Brien

Director

BDO Audit (WA) Pty Ltd

Perth, 18 August 2021

BDO Audit (WA) Pty Ltd ABN 79 112 284 787 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (WA) Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation.

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2021 \$	2020 \$
Non-capitalised portion of R&D tax incentive rebate	4(b)	81,361	237,272
Other income	4(a)	235,878	406,108
Employee benefits expense	5(c)	(2,764,261)	(2,576,926)
Other expenses	5(e)	(3,662,927)	(2,343,041)
Depreciation and amortisation	5(a)	(280,396)	(97,750)
Finance costs	5(b)	(27,727)	(11,453)
Share Based Payments	5(d)	(62,357)	(425,168)
Loss before income tax		(6,480,429)	(4,810,958)
Net (Loss) after income tax for the year		(6,480,429)	(4,810,958)
Total comprehensive (loss) for the year attributable to owners of Arafura Resources Limited		(6,480,429)	(4,810,958)
Loss per share attributable to owners of Arafura Resources Limited			
Basic loss per share (cents per share)	19	(0.55)	(0.46)
Diluted loss per share (cents per share)	19	(0.55)	(0.46)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2021 \$	2020 \$
CURRENT ASSETS			
Cash and cash equivalents	7	10,787,548	22,771,113
Trade and other receivables		117,350	217,558
Total Current Assets		10,904,898	22,988,671
NON-CURRENT ASSETS			
Property, plant and equipment		169,859	72,187
Right-of-use assets		181,735	417,712
Deferred exploration, evaluation and development costs	8	113,714,145	107,562,652
Other assets	9	563,742	340,326
Total Non-Current Assets		114,629,481	108,392,877
TOTAL ASSETS		125,534,379	131,381,548
CURRENT LIABILITIES			
Trade and other payables	10	2,557,786	1,763,738
Lease liabilities		190,900	230,543
Provisions	11	760,506	730,846
Total Current Liabilities		3,509,192	2,725,127
NON-CURRENT LIABILITIES			
Lease liabilities		-	190,672
Provisions	11	4,137	2,572
Total Non-Current Liabilities		4,137	193,244
TOTAL LIABILITIES		3,513,329	2,918,371
NET ASSETS		122,021,050	128,463,177
EQUITY			
Contributed equity	12	242,257,542	242,281,597
Reserves	13	12,701,115	12,638,758
Accumulated losses	14	(132,937,607)	(126,457,178)
TOTAL EQUITY		122,021,050	128,463,177

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 2021

Consolidated	Notes	Contributed equity \$	Equity reserve \$	Accumulated losses \$	Total equity \$
Balance at 30 June 2019		214,045,526	12,213,590	(121,646,220)	104,612,896
Loss for the 2020 financial year	14	-	-	(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	12	28,236,071	-	-	28,236,071
Employee share options – value of employee services	13	-	425,168	-	425,168
Balance at 30 June 2020		242,281,597	12,638,758	(126,457,178)	128,463,177
Loss for the 2021 financial year	14	-	-	(6,480,429)	(6,480,429)
Other comprehensive income		-	-	-	-
Total Comprehensive loss for the year		-	-	(6,480,429)	(6,480,429)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs and tax	12	(24,055)	-	-	(24,055)
Employee share options – value of employee services	13	-	62,357	-	62,357
Balance at 30 June 2021		242,257,542	12,701,115	(132,937,607)	122,021,050

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 2021

	Notes	2021 \$	2020 \$
Cash flows from operating activities			
Payments to suppliers and employees		(5,554,256)	(5,198,323)
Interest received		106,930	324,488
Other income		127,500	66,301
R&D Incentive rebate - non-capitalised portion		81,361	237,272
Interest paid		(27,729)	(11,453)
Net cash (outflow) from operating activities	15	(5,266,194)	(4,581,715)
Cash flows from investing activities			
Payment for property, plant and equipment		(142,091)	(43,950)
Payment for term deposits		(250,000)	(116,581)
Proceeds from term deposits		-	95,764
(Proceeds)/payment for security deposits		5,729	(64,504)
Proceeds from disposal of fixed assets		500	-
Payments for exploration and evaluation		(7,489,327)	(7,384,248)
R&D Incentive rebate - capitalised portion		1,053,145	1,278,022
Net cash (outflow) from investing activities		(6,822,044)	(6,235,497)
Cash flows from financing activities			
Net proceeds from issue of shares		116,500	30,246,747
Net proceeds pending issue of shares		234,449	-
Payments for transaction costs		-	(2,010,675)
Repayment of Lease liabilities		(245,837)	(45,631)
Net cash inflow from financing activities		105,112	28,190,441
Net (decrease)/increase in cash and cash equivalents		(11,983,126)	17,373,229
Cash at the beginning of the financial year		22,771,113	5,397,774
Effects of exchange rate changes on cash and cash equivalents		(439)	110
Cash and cash equivalents at the end of the financial year	7	10,787,548	22,771,113

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 2021

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NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

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 2021.

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 2021 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.

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.

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.

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 1: Summary of significant accounting policies (continued)

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.

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 23.

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 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.

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 1: Summary of significant accounting policies (continued)

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.

i. Accounting standards and interpretations issued but not yet mandatory

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 2021. The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

j. New or amended standards adopted by the Company

The Group has not adopted any new or amended standards during the year ended 30 June 2021.

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:

	2021 \$	2020 \$
Financial assets		
Cash and cash equivalents	10,787,548	22,771,113
Trade and other receivables	117,350	217,558
	10,904,898	22,988,671
Financial liabilities		
Trade creditors	897,411	622,676
Trade and other accruals	1,616,198	1,134,939
PAYG and payroll tax liabilities	44,178	6,124
Lease liabilities	190,900	421,215
	2,748,687	2,184,954

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 2: Financial Risk Management (continued)

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 2021 (2020: 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 2021, Arafura had no such investments (2020: 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.

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

	2021 \$	2020 \$
Cash at bank and short-term bank deposits		
Standard & Poor's rating AA-	10,787,548	22,771,113

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

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 2: Financial Risk Management (continued)

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 2021	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	2,557,786	-	-	-	-	2,557,786	2,557,786
Fixed rate	126,614	68,307	-	-	-	194,921	190,900
Total non-derivatives	2,684,400	68,307	-	-	-	2,752,707	2,748,686

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	121,688	124,150	194,920	-	-	440,758	421,215
Total non-derivatives	1,885,427	124,150	194,920	-	-	2,204,497	2,184,954

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

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 8.

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 2021 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 23.

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.

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 2021 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 8.

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.

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

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.

	2021 \$	2020 \$
(a) Other Income		
Interest received	107,878	312,763
Foreign exchange gain	-	108
Government grants	67,500	93,237
Royalty settlement	60,000	-
Gain on sale of assets	500	-
Total other income	235,878	406,108
(b) Non-capitalised portion of R&D Tax Incentive rebate		
Non-capitalised portion of R&D Tax Incentive rebate	81,361	237,272

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 5: Expenses

Notes	2021 \$	2020 \$
(a) Depreciation		
Depreciation – office furniture and fittings	2,517	2,882
Depreciation – office and computer equipment	32,974	24,866
Depreciation – plant & equipment	5,789	5,707
Depreciation – leasehold improvements	3,140	10,055
Depreciation – right-of-use assets	235,976	54,240
Total depreciation	280,396	97,750
(b) Finance costs		
Interest expense – lease liability	15,522	5,107
Interest expense - other	12,205	6,346
Total finance costs	27,727	11,453
(c) Employee benefits expense		
Employee benefits expense	2,764,261	2,576,926
(d) Share Based Payments		
Share-based employee benefits	23	
	62,357	425,168
(e) Other expenses		
Accounting and other professional fees	46,533	32,363
Audit fees	55,130	55,118
Consultants fees	2,199,451	356,463
Insurance	139,199	109,447
Legal fees	136,584	128,929
Share registry and stock listing fees	187,165	150,510
Loss on disposal of fixed assets	-	38,941
Other expenses	898,865	1,471,270
Total other expenses	3,662,927	2,343,041
Total Expenses	6,797,668	5,454,338

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 6: Income Tax

Accounting Standard

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

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

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

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

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

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

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

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 6: Income Tax (continued)

	2021 \$	2020 \$
Income tax expense		
Current tax	-	-
Loss before income tax	6,480,429	4,810,958
Income tax benefit @ 30%	1,944,129	1,443,287
Tax effect of amounts which are not deductible in calculating taxable income:		
• Entertainment	(6,581)	(3,938)
• Share-based payments	(18,707)	(127,551)
• Sundry items not deductible (assessable)	39,408	87,534
• Deferred tax assets relating to tax losses and temporary differences not recognised	2,266,093	(3,959,970)
• Temporary differences not recognised	(4,224,342)	2,560,638
Total income tax benefit	-	-

The franking account balance at year end was nil (2020: nil).

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

Deferred tax assets

Tax losses	61,862,916	63,507,213
Other temporary differences	1,286,307	1,373,137
Total deferred tax assets	63,149,223	64,880,350
Deferred tax liabilities	(34,206,308)	(32,403,024)
Net Deferred tax assets	28,942,915	32,477,326

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.

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

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.

	2021 \$	2020 \$
Cash at bank and in hand	753,176	1,940,865
Bank deposits ⁽¹⁾	10,034,372	20,830,248
	10,787,548	22,771,113

⁽¹⁾ All bank deposits mature within three months of 30 June 2021.

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 and per statement of cash flows	10,787,548	22,771,113
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The Group's exposure to interest rate risk is discussed in Note 2.

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 8: 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.

	2021 \$	2020 \$
Exploration, evaluation and development costs carried forward		
Balance at beginning of year	107,562,652	100,239,297
Capitalised exploration expenditure	609,746	1,696,227
Capitalised evaluation expenditure ⁽¹⁾	6,594,892	6,905,150
R&D Tax Incentive rebate receipted against capitalised evaluation costs	(1,053,145)	(1,278,022)
Balance at end of year	113,714,145	107,562,652

⁽¹⁾ 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.

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.

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 9: Non-current assets – other assets

	2021 \$	2020 \$
Tenement and other exploration related bonds	441,660	191,660
Lease bonds	122,082	148,666
	563,742	340,326

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 10: 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.

	2021 \$	2020 \$
<i>Current</i>		
Trade creditors	897,411	622,675
Trade and other accruals	1,616,198	1,134,939
PAYG and payroll tax liabilities	44,177	6,124
	2,557,786	1,763,738

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.

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 11: Current and non-current liabilities – provisions

	2021 \$	2020 \$
<i>Current</i>		
Annual and long service leave	623,817	623,736
Provision for restoration of evaluation expenditure	107,110	107,110
Other	29,579	-
	760,506	730,846
<i>Non-current</i>		
Long service leave	4,137	2,572

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.

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 12: 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.

	2021 Shares	2020 Shares	2021 \$	2020 \$
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Share capital

Fully paid ordinary shares

	1,170,780,763	1,167,797,430	242,257,542	242,281,597
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NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 12: 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-19	Balance	781,403,114		214,045,526
19-Jul-19	Entitlement Offer (First Issue)	150,596,492	0.085	12,800,704
19-Jul-19	Entitlement Offer (Shortfall)	120,541,657	0.085	10,246,042
22-Jul-19	Entitlement Offer (Balance of Shortfall)	2,352,941	0.085	200,000
19-Jun-20	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
8-Feb-21	Vesting of performance rights	2,050,000		-
4-Mar-21	Exercise of options	150,000	0.15	22,500
4-Mar-21	Exercise of options	783,333	0.12	94,000
	Capital Raising Costs			(140,555)
30-Jun-21	Balance	1,170,780,763		242,257,542

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.

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 13: 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 23.

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.

	2021	2020
	\$	\$
Reserves		
Share-based payments reserve	12,701,115	12,638,758
	12,701,115	12,638,758
Movements		
<i>Share-based payments reserve</i>		
Balance at beginning of year	12,638,758	12,213,590
Option expense	62,357	425,168
Balance at end of year	12,701,115	12,638,758

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.

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 14: Equity – accumulated losses

	2021 \$	2020 \$
Balance at beginning of year	(126,457,178)	(121,646,220)
Net loss for the year	(6,480,429)	(4,810,958)
Balance at end of year	(132,937,607)	(126,457,178)

Note 15: Statement of cash flows reconciliation

	2021 \$	2020 \$
Net (loss)	(6,480,429)	(4,810,958)
Adjustments for:		
Depreciation and amortisation	280,396	97,750
Disposal of fixed assets	(500)	38,941
Unrealised foreign exchange	440	(108)
Share-based employee benefits	62,357	425,168
Change in operating assets and liabilities:		
Trade & other receivables	121,063	(155,843)
Trade & other payables	748,833	(215,499)
Provisions	1,646	38,834
Net cash (outflow) from operating activities	(5,266,194)	(4,581,715)

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

Note 16: Key Management personnel compensation

	2021 \$	2020 \$
Short-term employee benefits	1,400,419	1,314,868
Post-employment benefits	100,014	96,489
Long-term benefits	28,224	19,281
Share-based payments	42,505	216,033
	1,571,162	1,646,671

Detailed remuneration disclosures are provided in sections A-E of the remuneration report on pages 23 to 32.

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 2020 and 2021 financial year, there were no loans to the Directors or other key management personnel.

c. Other transactions with key management personnel

During the 2020 and 2021 financial year, there were no other transactions with the Directors or other key management personnel at any time.

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 17: Remuneration of auditors

During the year, the following fees were paid or payable for services provided by the auditor of the Company.

No non-audit services were provided during the year (2020: Nil)

	2021 \$	2020 \$
Audit services		
<i>BDO Audit (WA) Pty Ltd</i>		
Audit and review of financial reports	55,130	55,118

Note 18: 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 2021, all leases held by the Company have been measured in accordance with AASB 16 *Leases*.

c. Mining tenement commitments

	2021 \$	2020 \$
Within one year	308,304	232,047
Later than one year but not later than five years	426,541	392,182
Later than five years	93,942	83,450
	828,787	707,679

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.

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 2021 or 30 June 2020.

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 19: 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.

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.

	2021 Cents	2020 Cents
Basic loss per share		
Basic loss per share (cents per share)	(0.55)	(0.46)
Diluted loss per share		
Diluted loss per share (cents per share)	(0.55)	(0.46)

	2021 \$	2020 \$
Net (loss)	(6,480,429)	(4,810,958)
(Loss) used to calculate basic earnings per share	(6,480,429)	(4,810,958)
(Loss) used to calculate diluted earnings per share	(6,480,429)	(4,810,958)

	2021 Number of shares	2020 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	1,168,904,873	1,045,408,844
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,168,904,873	1,045,408,844
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	-	-

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

Note 20: 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 21.

c. Key management personnel

Disclosures relating to key management personnel are set out in Note 16.

d. Transactions with related parties

There were no transactions with related parties in the year ended 30 June 2021 or 30 June 2020.

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.

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 21: 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	
			2021 %	2020 %
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
Nolans Operations Pty Ltd	Australia	Ordinary	100	-

Note 22: Events occurring after the reporting date

Given the strong interest in the SPP the Board decided to accept the maximum amount under the SPP (of \$5.5 million) and close the SPP early to minimise the impact of any potential scale back of applications.

The SPP closed at 5.00pm (Sydney time) on 13 August 2021, instead of the previously planned closing date of 23 August 2021.

No other matter or circumstance has arisen since 30 June 2021 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.

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 23: Share-based payments

a. 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:

	2021 \$	2020 \$
Vesting of options and performance rights issued under the Employee Share Option Plan or Performance Rights Plan	90,012	427,129
Reversal of cumulative expense recognised for options and performance rights issued under the Employee Share Option Plan or Performance Rights Plan forfeited during the period ⁽¹⁾	(27,655)	(1,961)
	62,357	425,168

⁽¹⁾ Relates to the reversal of the cumulative expense recognised for options or performance rights which had not vested by employee termination date.

b. Options

No options were issued during the year ended 30 June 2021. 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 – 2021								
31-Jul-17	30-Jun-21	\$0.150	1,635,000	-	(150,000)	(1,485,000)	-	-
31-Jul-18	1-Jul-22	\$0.120	14,155,000	-	(783,333)	(1,566,667)	11,805,000	9,436,662
22-Nov-18	1-Jul-22	\$0.120	4,750,000	-	-	-	4,750,000	2,375,000
Total			20,540,000	-	(933,333)	(3,051,667)	16,555,000	11,811,662
		Weighted average exercise price	\$0.12	-	\$0.12	\$0.13	\$0.12	\$0.12

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

Note 23: 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 – 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	-	-	\$0.12	\$0.12	\$0.12
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c. Employee Share Scheme - Performance rights

No performance rights were issued during the year ended 30 June 2021 or 30 June 2020.

Note 24: 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.

NOTES OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

Note 25: Parent entity financial information

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

<i>Arafura Resources Ltd (Parent)</i>	2021 \$	2020 \$
Statement of Financial Position		
Total current assets	10,903,426	22,987,641
Total assets	103,199,204	109,746,027
Total current liabilities	3,290,914	2,127,628
Total liabilities	3,295,050	2,320,871
<i>Shareholders' equity</i>		
Issued capital	242,257,543	242,281,598
Option reserve	12,701,114	12,638,757
Accumulated loss	(155,054,503)	(147,495,199)
Total equity	99,904,154	107,425,156
Loss for the year	(7,559,304)	(25,848,979)
Total comprehensive loss	(7,559,304)	(25,848,979)

All commitments and contingencies of the Group are held in the name of the Parent entity. Refer to Note 18 for full disclosure of these items.

DIRECTOR'S 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 2021 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 22 to 32 of the Directors' report (as part of the audited Remuneration Report), for the year ended 30 June 2021 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
18 August 2021

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 2021, 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 2021 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 2021, we note that the carrying value of the Deferred Exploration and Evaluation Asset is significant to the financial statements, as disclosed in note 8.</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 8 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 2021, 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 22 to 32 of the directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Arafura Resources Limited, for the year ended 30 June 2021 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, 18 August 2021

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 16 August 2021:

i. Distribution of fully paid ordinary shareholders:

Size of holding	Number of shareholders	Number of shares
100,001 and Over	1,622	1,225,136,418
10,001 to 100,000	6,663	249,449,941
5,001 to 10,000	2,547	20,383,617
1,001 to 5,000	2,665	8,762,606
1 to 1,000	909	381,515
	14,406	1,504,114,097

- 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 16 August 2021, there existed 2,444 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 16 August 2021 as per their notices:

Name	Ordinary shares %
ECE Nolans Investment Company Pty Ltd ⁽¹⁾	8.15

⁽¹⁾ The last notice of change of interest of substantial holder was provided to the ASX on 2 July 2021. The next notice of change of interest of substantial holder is only required where there is a change in holding greater than 1% from the previous notice.

ADDITIONAL INFORMATION

c. Top Twenty Shareholders

As at 16 August 2021, the twenty largest shareholders held 638,914,861 of the fully paid ordinary shares in Arafura Resources Limited and they are:

No.	Name	Shares	% of issued
1	BNP PARIBAS NOMINEES PTY LTD ACF CLEARSTREAM	159,388,724	10.59
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	114,348,431	7.59
3	ECE NOLANS INVESTMENT COMPANY PTY LTD	109,699,833	7.29
4	CITICORP NOMINEES PTY LIMITED	49,182,622	3.26
5	CS THIRD NOMINEES PTY LIMITED	39,527,983	2.72
6	BNP PARIBAS NOMINEES PTY LTD	26,490,879	1.76
7	BNP PARIBAS NOMINEES PTY LTD SIX SIS LTD	18,796,819	1.25
8	WASHINGTON H SOUL PATTINSON AND COMPANY	15,000,000	1.00
9	BNP PARIBAS NOMS PTY LTD	14,829,015	0.99
10	MS DANIELLE SHARON TUDEHOPE	11,000,000	0.70
11	MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED	10,651,362	1.14
12	NATIONAL NOMINEES LIMITED	10,460,349	0.70
13	MR JING WANG	9,874,063	0.66
14	ELEMENT AU SMSF PTY LTD	9,688,888	0.64
15	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	8,692,924	0.58
16	BRISPOT NOMINEES PTY LTD	7,197,111	0.48
17	BNP PARIBAS NOMS PTY LTD	7,099,557	0.47
18	KAOS INVESTMENTS PTY LIMITED	7,000,000	0.47
19	MR DAVID JOHN HARRISON	5,275,000	0.35
20	1215 CAPITAL PTY LTD	4,711,301	0.25
		638,914,861	42.89

ADDITIONAL INFORMATION

2. Tenement Register as at 16 August 2021

Tenement reference	Project	Holder	Nature of interest	Interest at beginning of quarter	Interest at end of quarter	Notes
ML 26659 ML 30702 ML 30703 ML 30704 ML 32411 ML 32412 ML 32413 ML 32414 ML 32415 ML 32416	Nolans, NT	Arafura Rare Earths Pty Ltd	Mineral Lease	100% 100% 100% 100% 100% 100% 100% 100% 100% 100%	100% 100% 100% 100% 100% 100% 100% 100% 100% 100%	
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	Jervois Vanadium, NT	Arafura Resources Ltd	Exploration Licence	60%	60%	Thor Mining Plc 40%, Arafura Resources Limited 60%
ML32722	Nolans, NT	Arafura Rare Earths Pty Ltd	Mineral Lease	100%	0%	Application lodged.
EMEL 32672 EMEL 32673 EMEL 32674 EMEL 32675 EMEL 32676	Nolans, NT	Arafura Rare Earths Pty Ltd	Extractive Mineral Exploration License	100%	0%	



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