



ARAFURA RESOURCES LIMITED

ABN 22 080 933 455

## HALF-YEARLY REPORT

FOR THE PERIOD ENDED 31 DECEMBER 2007

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# DIRECTORS' REPORT

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Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Arafura Resources Ltd and the entities it controlled at the end of, or during, the half-year ended 31 December 2007.

## DIRECTORS

The following persons were directors of Arafura Resources Limited during the whole of the half-year and up to the date of this report:

<b>IG Muir</b>	<b>Non-Executive Chairman</b>
<b>AJ Stephens</b>	<b>Managing Director</b>
<b>IJ Kowalick</b>	<b>Non-Executive Director</b>
<b>TR Jackson</b>	<b>Non-Executive Director</b>
<b>S Ward</b>	<b>Non-Executive Director *</b>

**\* Appointed as Non-Executive Director on 15 August 2007.**

## REVIEW OF OPERATIONS

### a) Corporate

In November, the company issued 18,691,000 fully paid ordinary shares at \$1 per share by way of private placement. Total money raised from this placement, net of costs was \$17.8 million. During the period 3,281,907 listed options at \$0.13 per option and 100,000 non-listed options at \$0.22 per option were exercised and converted to fully paid ordinary shares.

### b) Nolans Rare Earths-Phosphate Project

In September the pre-feasibility study for the Nolans Project with an estimated net present value in excess of \$1.1billion and an operating life exceeding 20 years was completed. The study was based on a conservative approach to resource grade, capital costs, operating costs, rare earth prices, hurdle rates, exchange rates and with escalation factors on costs and Rare Earths prices built in. The independent study conducted by respected international engineering firms was consistent with the project planning practices of major companies. Pilot Plant operation and further test work will continue throughout 2008 increasing the level of certainty in the planning parameters whilst identifying and defining additional improvements. This will cumulate in the Definitive Engineering Study which will commence in 2008 and is expected to be completed in 2009.

During the month of December approximately 200 tonnes of mineralisation was extracted from Nolans to gain a representative sample of the first two years of process feed. Crushing, screening and heavy media test work of this sample commenced in December and the resultant material will be the primary feed for the pilot plant which is located at the Australian Nuclear Science and Technology Organisation. Trial processing of the Rare Earths plant is expected to commence in March 2008.

Simultaneously representatives of Bateman Litwin (Israel) have been in Australia preparing the phosphoric acid pilot plant which will commence operation in February 2008.

During the six months to December 2007 a program of approximately 10,000 metres of drilling has been completed in the central part of the northern zone to improve resource definition to a depth of 100 metres. This area of exposed resource at the surface will be the focus of initial mining activities. Also as the zone contains higher grade mineralisation, it will be the focus of feed grade determination. The remaining drilling program of approximately 8,000 metres is currently underway.

In late 2007 the company lodged a Mineral Lease Application over the Nolan's area with the Northern Territory Government. Environmental studies have commenced and will cumulate in the submission in the first quarter of 2008 of the Notice of Intent.

# DIRECTORS' REPORT

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## c) Gold

### *(i) Kurinelli (100% ARU)*

In August an infill soil survey at the Kurinelli gold project, located 150 kilometres southwest of Tennant Creek was completed. The survey was designed to cover the northern portion of a broad 8.25 km<sup>2</sup> gold-in-soil anomaly on a 25 metre by 50 metre grid.

This survey was successful in defining a coherent 2 kilometre long, northeast-trending zone of elevated gold results in the eastern part of the area. The highest gold analysis achieved from this zone was 2.51 grams per tonne.

Planning is underway to drill test high priority zones during the latter half of 2008.

## d) Vanadium

### *(i) Jervois (Unca) Fe-Ti-V, (100% ARU)*

A drilling program is currently being planned at Jervois which will involve approximately 7,500 metres of drilling to investigate the extent of vanadium bearing magnetite mineralisation which was identified through the Company's 2006 program. Preparations are underway and drilling is expected to commence in the 2008 March Quarter.

## e) Nickel

### *(i) Hammer Hill JV with Mithril Resources Ltd (100% ARU, Mithril/BHPB earning up to 70%)*

A VTEM airborne electromagnetic survey over the Hammer Hill project area, commissioned by Mithril Resources ("Mithril") was completed and reported in the period. Several priority buried conductive targets, indicating potentially the presence of nickel sulphide mineralisation at depth, were defined on the Hammer Hill tenements. Drill testing of these anomalies will be undertaken by Mithril in the March 2008 Quarter.

Based on these favourable results BHP Billiton ("BHPB") has chosen to participate in the Hammer Hill JV. Per the terms of the agreement, BHPB shall solely fund all further exploration to earn a maximum 51% interest. The agreement also permits BHPB and Mithril to earn-in up to 70% of the Arafura Hammer Hill tenements.

## f) Iron

### *(i) Frances Creek*

During the period, the Company announced the intention to sell to Territory Resources Limited its iron ore royalties at Frances Creek for \$2.5m. In January 2008 the Company received 50% of this payment, the remainder due upon completion of the transaction.

# DIRECTORS' REPORT

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## 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 12.

## POST BALANCE DATE

On the 14<sup>th</sup> of January 2008 the transfer of the Frances Creek mining tenements in the Northern Territory as part of the process to cancel the royalty with Territory Resources Limited was agreed in principal. In consideration for this Arafura Resources has received \$1.25m with the remaining balance of \$1.25m to be paid on the 14<sup>th</sup> of March 2008. Arafura has retained the right to explore and exploit any gold mineralisation on these tenements.

This report is made in accordance with a resolution of directors.



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IG Muir  
Director

Perth  
26 February 2008

# CONSOLIDATED INCOME STATEMENT

## FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

	Notes	Half-year	
		2007	2006
		\$	\$
Revenue from continuing operations		-	-
Other revenue		738,646	132,192
Accounting & other professional fees		(35,848)	(52,005)
Audit expenses		(12,673)	(1,321)
Borrowing cost expenses		(9,357)	(4,703)
Consultants fees		(20,045)	(186,582)
Computer and software expenses		(43,765)	(12,173)
Depreciation expenses		(59,608)	(17,059)
De-merger expenses		-	(47,293)
Employee benefits expenses		(1,625,478)	(619,401)
Insurance expenses		(28,767)	(24,661)
Legal expenses		(21,343)	(42,453)
Motor vehicle expenses		(4,441)	(8,158)
Promotional expenses		(215,211)	(94,042)
Recruitment fees		(107,700)	(20,731)
Rent expenses		(148,667)	(65,651)
Stock exchange fees		(57,223)	(55,376)
Travel and accommodation expenses		(243,996)	(73,809)
Bank charges		(2,176)	(5,627)
Other expenses		(81,468)	(55,549)
Feasibility study		(1,469,445)	(426,599)
Pilot Plant		(532,584)	-
<b>Loss before income tax</b>		<b>(3,981,149)</b>	<b>(1,681,001)</b>
Income tax expense		-	-
<b>Loss for the half-year</b>		<b>(3,981,149)</b>	<b>(1,681,001)</b>
<b>Loss attributable to members of Arafura Resources Limited</b>		<b>(3,981,149)</b>	<b>(1,681,001)</b>
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per share:</b>			
Basic earnings per share		(0.0310)	(0.0211)
Diluted earnings per share		(0.0310)	(0.0211)

The above income statement should be read in conjunction with the accompanying notes.

# CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2007

	Notes	31 December 2007 \$	30 June 2007 \$
<b>ASSETS</b>			
Cash and cash equivalents		18,410,174	4,746,460
Trade and other receivables		269,205	538,817
<b>Total current assets</b>		<b>18,679,379</b>	<b>5,285,277</b>
<b>Non-current assets</b>			
Available-for-sale financial assets		1,251,245	2,794,347
Property, plant and equipment		561,811	344,048
Exploration and evaluation costs carried forward		7,145,810	5,528,916
<b>Total non-current assets</b>		<b>8,958,866</b>	<b>8,667,311</b>
<b>Total assets</b>		<b>27,638,245</b>	<b>13,952,588</b>
<b>LIABILITIES</b>			
Borrowings		67,684	69,911
Trade and other payables		588,017	414,027
Provisions		124,990	48,972
<b>Total current liabilities</b>		<b>780,691</b>	<b>532,910</b>
<b>Non-current liabilities</b>			
Borrowings		90,830	128,945
<b>Total non-current liabilities</b>		<b>90,830</b>	<b>128,945</b>
<b>Total liabilities</b>		<b>871,521</b>	<b>661,855</b>
<b>Net assets</b>		<b>26,766,724</b>	<b>13,290,733</b>
<b>Equity</b>			
Contributed equity		35,402,211	17,279,525
Reserves		3,303,378	3,968,924
Accumulated losses		(11,938,865)	(7,957,716)
<b>Total equity</b>		<b>26,766,724</b>	<b>13,290,733</b>

The above balance sheet should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

	Notes	Share Capital Ordinary \$	Equity Reserve \$	Revaluation Reserve \$	Accumulated Losses \$	Total \$
<b>2007</b>						
<b>Equity at the beginning of the half-year</b>		17,279,525	2,255,463	1,713,461	(7,957,716)	13,290,733
Shares/options issued (net of issue costs)		153,181	(51,103)	-	-	102,078
Employee Share Options		151,103	791,162	-	-	942,265
Private Placement		17,818,402	-	-	-	17,818,402
Sub-total		35,402,211	2,995,522	1,713,461	(7,957,716)	32,153,478
Changes in the fair value of available-for-sale financial assets		-	-	(1,405,605)	-	(1,405,605)
<b>Net income recognised directly in equity</b>		-	-	(1,405,605)	-	(1,405,605)
Loss attributable to members of parent entity		-	-	-	(3,981,149)	(3,981,149)
<b>Equity at the end of the half-year</b>		35,402,211	2,995,522	307,856	(11,938,865)	26,766,724
<b>2006</b>						
<b>Equity at the beginning of the half-year</b>		12,381,827	369,918	125,000	(2,909,350)	9,967,395
Shares/options issued (net of issue costs)		12,799,196	-	-	-	12,799,196
Employee Share Options		-	4,290	-	-	4,290
Sub-total		25,181,023	374,208	125,000	(2,909,350)	22,770,881
Changes in the fair value of available-for-sale financial assets		-	-	(100,000)	-	(100,000)
<b>Net income recognised directly in equity</b>		-	-	(100,000)	-	(100,000)
Loss attributable to members of parent entity		-	-	-	(1,681,001)	(1,681,001)
<b>Equity at the end of the half-year</b>		25,181,023	374,208	25,000	(4,590,351)	20,989,880

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



# CONSOLIDATED CASH FLOW STATEMENT

## FOR THE HALF-YEAR ENDED 31 DECMEBER 2007

	Notes	Half-year	
		2007 \$	2006 \$
<b>Cash flows from operating activities</b>			
Interest received		266,615	132,192
Other Income		251,427	-
Feasibility study		(1,222,087)	(390,949)
Pilot Plant		(478,581)	-
Payments to suppliers		(1,781,957)	(1,295,669)
<b>Net cash outflow from operating activities</b>		<b>(2,964,583)</b>	<b>(1,554,427)</b>
<b>Cash flows from investing activities</b>			
Payment for non-current assets		(259,578)	(36,046)
Hire purchase payments on plant & equipment		(42,897)	-
Proceeds from sale if available-for-sale financial assets		110,373	-
Payments in relation to demerger		-	(47,293)
Exploration expenditure		(1,610,026)	(1,619,241)
<b>Net cash outflow from investing activities</b>		<b>(1,802,128)</b>	<b>(1,702,580)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		19,140,148	13,995,969
Transaction costs from issue of shares		(1,086,151)	(768,462)
Repayment of loan from former related entity		376,428	-
<b>Net cash inflow from financing activities</b>		<b>18,430,425</b>	<b>13,227,507</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>13,663,714</b>	<b>9,970,500</b>
Cash and cash equivalents at the beginning of the half-year		4,746,460	6,277,856
<b>Cash and cash equivalents at the end of the half-year</b>		<b>18,410,174</b>	<b>16,248,356</b>

The above cash flow statement should be read in conjunction with the accompanying notes.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE HALF-YEAR ENDED 31 DECEMBER 2007

### Note 1 Basis of preparation of half-year report

This general purpose financial report for the interim half-year reporting period ended 31 December 2007 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2007 and any public announcements made by Arafura Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

### Note 2 Segment information

Arafura Resources Limited and its controlled entities were incorporated (and are domiciled) in Australia and operate in the mineral exploration industry within Australia.

### Note 3 Equity securities issued

	2007 Shares	2006 Shares	2007 \$	2006 \$
<b>Issues of ordinary shares during the half-year</b>				
As at 1 July 2007(2006)	121,933,670	75,779,361	17,279,525	12,381,827
Exercise of options issued under the Arafura Employee Option Scheme	100,000	550,000	73,103	167,000
Exercise of listed options	3,281,907	8,418,737	426,648	1,683,747
Rights issue	-	33,736,726	-	12,145,221
Private Placement	18,691,500	-	18,691,500	-
Capital raising costs	-	-	(1,068,565)	(1,313,227)
Fully paid ordinary shares	144,007,077	118,484,824	35,402,211	25,064,568

### Note 4 Contingent liabilities

Native title claims have been made with respect to areas which include tenements in which the consolidated entity has interests. The consolidated entity is unable to determine the prospects for success or otherwise of the claims and, in any event, whether or not and to what extent the claims may significantly affect the consolidated entity or its projects.

### Note 5 Dividends

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

### Note 6 Events occurring after the balance sheet date

On the 14<sup>th</sup> of January 2008 the transfer of the Frances Creek mining tenements in the Northern Territory as part of the process to cancel the royalty with Territory Resources Limited was agreed in principal. In consideration for this Arafura Resources has received \$1.25m with the remaining balance of \$1.25m to be paid on the 14<sup>th</sup> of March 2008. Arafura has retained the right to explore and exploit any gold mineralisation on these tenements.

# DIRECTORS' DECLARATION

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In the directors' opinion:

1. The financial statements, notes and the additional disclosures included in the directors' report designated as audited:
  - a. comply with Accounting Standards, Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - b. give a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the half-year ended on that date.
2. In the directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of directors.



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IG Muir  
Director

Perth  
26 February 2008

## **INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF ARAFURA RESOURCES LIMITED**

We have reviewed the accompanying half-year financial report of Arafura Resources Limited, which comprises the condensed balance sheet as at 31 December 2007, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year end or from time to time during the half-year in order for the disclosing entity to lodge the half-year financial report with the Australian Securities and Investments Commission.

### **Directors' Responsibility for the Half-Year Financial Report**

The directors of the disclosing entity are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's Responsibility**

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the disclosing entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Arafura Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

## Independence

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

## Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and Corporations Regulations 2001.

## BDO Kendalls Audit & Assurance (WA) Pty Ltd



**Peter Toll**  
Director

Subiaco, Western Australia  
Date this 26th day of February 2008

26 February 2008

The Directors  
Arafura Resources Limited  
Level 4, 16 St Georges Terrace  
PERTH WA 6000

Dear Sirs

**DECLARATION OF INDEPENDENCE BY BDO KENDALLS TO THE DIRECTORS OF ARAFURA RESOURCES LIMITED**

As lead auditor for the review of Arafura Resources Limited for the half-year ended 31 December 2007, I declare that to the best of my knowledge and belief, there have been:

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

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



**Peter Toll**  
Director



**BDO Kendalls Audit & Assurance (WA) Pty Ltd**