ARAFURA RESOURCES LIMITED

ABN 22 080 933 455

Half-Yearly Report

For the Period Ended 31 December 2011

CORPORATE OFFICE

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Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Arafura Resources Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2011.

Directors

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

I J Kowalick
C S Tonkin
S Lu
A Losada-Calderon

The following changes took place to the Board of Arafura Resources Limited from 1 July 2011 up to and including the date of this report.

1) Mr Irvin (Mick) Muir retired and stepped down from the position of independent Non-Executive Director on the 25th of November 2011.
2) Mr Ian Kowalick was not re-elected as Non-Executive Director at the AGM held on the 25th of November 2011. Following on from discussions with East China Mineral Exploration & Development Bureau (ECE), Mr. Kowalick was appointed as an independent Non-Executive Director on the 3rd of December 2011.
3) On the 3rd of December 2011, Mr Ian Laurance stepped down as Non-Executive Chairman and remained as an independent Non-Executive Director. On the 16th of February 2012 Mr Ian Laurance stepped down as a Non-Executive Director.
4) Mr Chris Tonkin was appointed interim Chairman on the 3rd of December 2011. On the 1st of February 2012 Mr Ian Kowalick was appointed as independent Non-Executive Chairman of Arafura Resources Limited.
5) Dr Steve Ward stepped down as Managing Director and Chief Executive Officer on the 16th of February 2012.
6) Mr Lloyd Jones and Ms Loretta Reynolds were appointed as independent Non-Executive Directors on the 30th of August 2011 and 16th of September 2011 respectively. On the 16th of February 2012 both Mr Lloyd Jones and Ms Loretta Reynolds stepped down as Directors.
7) Mr Terry Jackson stepped down from the position of independent Non-Executive Director on the 16th of February 2012.

Review of operations

During the reporting period the Group primarily advanced work on the Nolans Project in the following areas.

Mine and Resource

In early September 2011, the comprehensive drill out of the Nolan's Bore resource was completed. The program which began in mid February 2011, comprised 227 RC holes for 29,904 metres, and 183 diamond core holes and extensions to existing holes for 22,265 metres. A number of significant results from the program were reported to the ASX on 28 July, 22 August, 13 October and 21 November 2011.

Engineering and Technology

Significant progress was made in regard to the construction of new facilities for the demonstration program. The pre-leach plant at ALS-Ammtec was mechanically completed during the 6 month period and construction of the sulphation and rare earths recovery demonstration plant at ANSTO Minerals was 90% complete at the end of the December period. Material obtained from the "Big Bertha" drilling program in 2010 was successfully upgraded via a beneficiation circuit to produce a mineral concentrate at the ALS-Ammtec facility. The beneficiation test program has delivered a better understanding of how the differing mineralogy of the resource reacts to various beneficiation techniques. Flow sheet, mass balance and process design criteria development for beneficiation and downstream chemical processing has progressed considerably based on the latest technology program results. This demonstration plant successfully treated mineral concentrate to form an intermediate solid rare earth product ready for transport to ANSTO.

In addition, AMEC Minproc has commenced preliminary engineering studies for the rare earths complex at Whyalla including initial plant layout designs and this will be the basis for updating capital costs for the infrastructure requirements for the plant. Capital and operating costs are being updated with the latest process and engineering information to be used for tracking and control of project costs.

Environment and Community

Environmental studies at Nolan's Bore and Whyalla required for the Environmental Impact Statements have also continued. This work includes flora, fauna, hydrology and other background surveys. Additional lease area applications were lodged for Nolan's Bore and the EIS study area increased to accommodate the increased mine site footprint. Engagement and communication with the Central Land Council and other local stakeholder groups continued with respective project updates, and feedback on aspects of significant local interest. Ongoing baseline definition studies such as background radiation and dust sampling continue in Whyalla and preparation for Social Impact Assessment formal stakeholder engagement and additional seasonal land/marine studies are well advanced.

Corporate and Marketing

In August 2011, Arafura executed a Letter of Intent (LOI) with ThyssenKrupp Metallurgical Products GmbH, a daughter company of ThyssenKrupp and a major German integrated materials and technology company.

The LOI includes and provides for:

- Development of an exclusive long-term commercial agreement between the parties for the sale of Arafura's Rare Earth Oxide products in Germany;
- Arafura and ThyssenKrupp Metallurgical Products working together to pursue potential funding for the Nolan's Project; and
- ThyssenKrupp Metallurgical Products providing Arafura with logistical advice and assistance.

It is envisaged that once a formal commercial agreement is negotiated, agreed and signed, it will account for approximately 15% of Arafura's targeted annual rare earth oxides production from its Nolan's Project. The final amount will be subject to the completion of the formal commercial agreement.

Discussions with targeted customers in Korea, Japan, Europe and North America have continued. Interest in Arafura and its products remains high. The possibility of accessing some project finance in conjunction with off take agreements is being pursued. These discussions have also assisted Arafura in refining its Rare Earth Oxide separation program to ensure high quality products to meet specific customer needs are produced.

A summary of consolidated expenditures, revenues and results for the half-year by significant segments is set out below:

	Segment expenditures		Segment revenues		Capitalised		Segment results	
	2011 $	2010 $	2011 $	2010 $	2011 $	2010 $	2011 $	2010 $
Project evaluation	(33,093,170)	(10,505,656)	-	-	(32,934,603)	(10,437,170)	(158,567)	(68,486)
Exploration	(134,790)	(276,031)	-	-	(134,790)	(276,031)	-	-
Corporate	(5,051,684)	(4,350,504)	1,651,493	976,107	-	-	(3,400,191)	(3,374,397)
Total(s)	**(38,279,644)**	**(15,132,191)**	**1,651,493**	**976,107**	**(33,069,393)**	**(10,713,201)**	**(3,558,758)**	**(3,442,883)**

Segment results are adjusted earnings/(losses) before interest, tax, depreciation, share option expense gains/losses on disposals of assets and exchange rate gains/losses. For reconciliation to (loss) before income tax refer to note 2.

(a) Project evaluation

The Group's Nolans Project is underpinned by a world-class rare earths-phosphate-uranium deposit with a total resource as at 31 December 2011 of 30.3 million tonnes. The mineralisation is hosted over an area of about 150 hectares and is exposed, in part, at surface. Based on the 2008 resource model, this resource contains 850,000 tonnes of rare earths (REO), 3.9 million tonnes of phosphate (P_2O_5) and 13.3 million pounds of uranium (U_3O_8) and remains open ended along parts of strike and at depth.

As a result of the significant drilling campaign conducted through the 2011 calendar year and concluding in calendar year 2012, a major upgrade in JORC resources at Nolans Bore has subsequently been established (for details please refer to item (d) under *Events occurring after the Reporting Date*).

Work on development of a mine plan based on the new resource model will now commence and progress on other key work programs, such as further separation of Rare Earths to produce a Cerium Oxide product for customer assessment continues.

(b) Exploration

Minimal exploration was conducted during the period as resources were diverted to complete the recent Nolan's drilling campaign. However, on 10 October, Arafura reported a number of encouraging intercepts of rare earths mineralisation from shallow RC drilling of geophysical exploration targets north-east of the Nolan's Bore deposit. Similar target zones are apparent on land controlled by Arafura elsewhere in the Aileron district. These will be assessed during the 2012 field season.

Airborne geophysical (magnetic-radiometric) data was acquired in December over EL 27337 (Aileron-Reynolds Project) and EL 9725 (Hammer Hill Project) targeting rare earths mineralisation.

Iron exploration by Ngalia Resources on EL 24548 comprised a detailed gravity survey and approximately 2,000 metres of shallow RC drilling on down-dip extensions to two outcropping targets. Assay results are awaited.

(c) Corporate

At a corporate level, the Group engaged various external parties and held discussions to develop the best strategy to obtain additional funding necessary to complete the Nolans Project Bankable Feasibility Study. Arafura's existing shareholders expressed interest to participate in its future funding needs and the Company also held discussions with targeted customers to potentially provide funding linked to off-take agreements.

Events occurring after the Reporting Date

(a) Changes to the Board of Arafura Resources Limited

On the 1st of February 2012, Arafura announced the appointment of Mr Ian Kowalick as Non-executive Chairman, who replaces the interim Chairman Mr Chris Tonkin. Subsequent to this, on the 16th of February 2012, Arafura announced that Ms Loretta Reynolds, Mr Lloyd Jones, Mr Ian Laurance and Mr Terry Jackson were to retire from their Independent Non Executive Director positions with immediate effect. On the 16th of February 2012 the Managing Director and CEO resigned.

(b) Capital Raising

On the 22nd of February 2012, Arafura announced to its shareholders an offer to participate in a Share Purchase Plan to assist in funding ongoing work programs including environmental studies, mine planning and process flow sheet refinement. The offer is capped at $12 million and will be priced based on a 10% discount to the 5 day Volume Weighted Average Price prior to and including the offer closing date being the 19th March 2012.

(c) Sale of Available-for-Sale Financial Assets

On the 1st of March 2012, Arafura sold on market 23,842,000 fully paid ordinary shares in NuPower Resources Limited (ASX: NUP).

(d) Major Resource Upgrade at Nolans Bore

On the 12th of March 2012, the Group announced a major upgrade in JORC resources at Nolans Bore. The highlights of the resources upgrade are:

- The upgraded resource contains 46 million tonnes @ 2.5% REO for 1,150,000 tonnes of contained Rare Earths:
- This is an increase on 2008 resources of 52% in total tonnes and 36% in contained Rare Earths; and
- Measured and Indicated Resources total 25.3 million tonnes and account for 55% of the total resource.

Classification of total resources at Nolans Bore into Measured, Indicated and Inferred Resource categories is shown in the table below. In-situ resources of Rare Earths, Phosphate and Uranium are also shown in table 1.

Table 1: Nolans Bore Resources as at 12 March 2012.

RESOURCES	TONNES (million)	RARE EARTHS REO %	TONNES REO	PHOSPHATE P_2O_5 %	TONNES P_2O_5	URANIUM U_3O_8 lb/t	TONNES U_3O_8
Measured	4.3	3.4	146,200	12	516,000	0.61	1,200
Indicated	21	2.5	525,000	12	2,520,000	0.41	3,990
Inferred	21	2.3	483,000	10	2,100,000	0.37	3,570
TOTAL	46	2.5	1,150,000	11	5,060,000	0.41	8,740

Numbers may not compute exactly due to rounding

Total in-situ identified resources of Rare Earths, Phosphate and Uranium at Nolans Bore have been expanded by 36%, 30% and 45% respectively, since the November 2008 resource estimate.

AUDITORS’ INDEPENDENCE DECLARATION
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

Audit independence declaration

A copy of the auditors’ independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 9.

Signed in accordance with a resolution of the Directors.

Ian Kowalick
Chairman

Perth
14 March 2012

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Australia

14 March 2012

The Directors
Arafura Resources Limited
Level 5, 16 St Georges Terrace
PERTH WA 6000

Dear Sirs,

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

As lead auditor for the review of Arafura Resources Limited for the half-year ended 31 December 2011, 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.

Glyn O'Brien
Director

BDO Audit (WA) Pty Ltd
Perth Western Australia

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	Notes	Consolidated 6 months to 31 December 2011 $	Consolidated 6 months to 31 December 2010 $
Revenue from continuing operations	3	1,501,493	839,178
Other income	3	189,122	(15,310)
Employee benefits expense	4	(3,334,472)	(3,691,413)
Project feasibility and evaluation	4	(158,567)	(68,486)
Other expenses	4	(2,458,327)	(1,665,755)
Depreciation and amortisation	4	(101,404)	(111,809)
Finance costs	4	(1,680)	(2,264)
Impairment on assets	4	(59,007)	-
Loss before income tax		**(4,422,842)**	**(4,715,859)**
Income tax expense		-	-
(Loss) for the half-year		**(4,422,842)**	**(4,715,859)**
Other comprehensive income/(loss)			
Changes in the fair value of assets	5	(12,519)	143,053
Other comprehensive income/(loss) for the half-year		**(12,519)**	143,053
Total comprehensive (loss) for the half-year		**(4,435,361)**	**(4,572,806)**
Total comprehensive (loss) for the half-year attributable to owners of Arafura Resources Limited		(4,435,361)	(4,572,806)
		Cents	**Cents**
Loss per share attributable to owners of Arafura Resources Limited			
Basic and diluted loss per share		(1.21)	(1.50)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

	Notes	Consolidated as at 31 December 2011 $	Consolidated as at 30 June 2011 $
ASSETS			
Current Assets			
Cash and cash equivalents		35,305,304	70,223,566
Trade and other receivables		1,241,847	1,851,072
Assets classified as held for sale		756,952	749,033
Total current assets		**37,304,103**	**72,823,671**
Non-current assets			
Available-for-sale financial assets	5	667,576	739,102
Property, plant and equipment		431,716	498,920
Deferred exploration and evaluation costs	6	110,899,308	77,837,834
Other assets		2,000,000	2,000,000
Total non-current assets		**113,998,600**	**81,075,856**
Total assets		**151,302,703**	**153,899,527**
LIABILITIES			
Current liabilities			
Borrowings		8,578	26,469
Trade and other payables		12,682,336	11,564,708
Total current liabilities		**12,690,914**	**11,591,177**
Non-current liabilities			
Borrowings		20,831	25,291
Trade & other payables		37,122	34,977
Total non-current liabilities		**57,953**	**60,268**
Total liabilities		**12,748,867**	**11,651,445**
Net assets		**138,553,836**	**142,248,082**
EQUITY			
Contributed equity	7	176,163,635	176,163,635
Reserves		10,605,082	9,876,486
Accumulated losses		(48,214,881)	(43,792,039)
Total equity		**138,553,836**	**142,248,082**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

Consolidated Half-Year 2011	Notes	Contributed Equity $	Equity reserve $	Revaluation reserve $	Accumulated losses $	Total $
Balance at 1 July 2011		**176,163,635**	**9,863,967**	**12,519**	**(43,792,039)**	**142,248,082**
Total comprehensive (loss) for the half-year						
Loss for the half-year		-	-	-	(4,422,842)	(4,422,842)
Other comprehensive (loss) for the half-year						
Fair value movement of available-for-sale financial assets		-	-	(12,519)	-	(12,519)
Total comprehensive (loss) for the half-year		-	-	(12,519)	(4,422,842)	(4,435,361)
Transactions with owners in their capacity as owners:						
Contributions of equity net of transaction costs		-	-	-	-	-
Cost of share based options		-	741,115	-	-	741,115
		-	741,115	-	-	741,115
Balance at 31 December 2011		**176,163,635**	**10,605,802**	**-**	**(48,214,881)**	**138,553,836**
Balance at 1 July 2010		**88,662,312**	**7,908,249**	**107,887**	**(36,330,043)**	**60,348,405**
Total comprehensive (loss) for the half-year						
Loss for the half-year		-	-	-	(4,715,859)	(4,715,859)
Other comprehensive (loss) for the half-year						
Fair value movement of available-for-sale financial assets		-	-	143,053	-	143,053
Total comprehensive income/(loss) for the half-year		-	-	143,053	(4,715,859)	(4,572,806)
Transactions with owners in their capacity as owners:						
Contributions of equity net of transaction costs		85,835,323	-	-	-	85,835,323
Cost of share based options		-	1,006,664	-	-	1,006,664
		85,835,323	1,006,664	-	-	86,841,987
Balance at 31 December 2010		**174,497,635**	**8,914,913**	**250,940**	**(41,045,902)**	**142,617,586**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	Notes	Consolidated 6 months to 31 December 2011 $	Consolidated 6 months to 31 December 2010 $
Cash flows from operating activities			
Payments to suppliers and employees		(4,489,098)	(3,668,831)
Interest received		2,378,501	492,897
Other revenue		15,194	136,929
Net cash outflow from operating activities		**(2,095,403)**	**(3,039,005)**
Cash flows from investing activities			
Payments for property, plant and equipment		(62,418)	(73,055)
Payments for patents and trademarks		-	(34,448)
Payments for exploration and evaluation		(32,799,563)	(9,578,983)
Net cash outflow from investing activities		**(32,861,981)**	**(9,686,486)**
Cash flows from financing activities			
Proceeds from issue of shares		-	85,835,323
Net cash inflow from financing activities		-	**85,835,323**
Net decrease in cash and cash equivalents		**(34,957,384)**	**73,109,832**
Cash at the beginning of the financial period		70,223,566	23,542,883
Effects of exchange rates on cash and cash equivalents		39,122	14,105
Cash and cash equivalents at the end of the financial period		**35,305,304**	**96,666,820**

The above consolidated statement of cash flows should be read in conjunction with the accompanying note.

Note 1: Basis of Preparation of Half-Year Report

(a) Basis of preparation

This general purpose financial report for the interim half-year reporting period ended 31 December 2011 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 2011 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.

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

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard will affect in particular the group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. In the current reporting period, the group recognised $12,519 of such losses in other comprehensive income.

There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The derecognition rules have been transferred from AASB 139 *Financial Instruments: Recognition and Measurement* and have not been changed. The group has not yet decided when to adopt AASB 9.

(c) Going concern

The Directors are of the opinion that, as at the date of these financial statements, the Group is a going concern and, as a result, the financial report for the period ended 31 December 2011 does not include any adjustments relating to the recoverability and the classification of the recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

At 31 December 2011 the Group had cash assets of $35,305,304 (30 June 2011: $70,223,566) and working capital of $24,613,189 (30 June 2011: $61,232,494).

The Directors are of the opinion that there is a reasonable expectation that the Group will be able to continue as a going concern on the basis that:

- The Company expects to continue to receive the support of its shareholders;
- The Company will be able to raise further working capital through the issue of shares and/or through debt funding;
- The Company can realise working capital through the sale of its non-core assets or through the introduction of joint venture parties; and
- The Company can scale back its current levels of expenditure on existing projects.

Despite the opportunities to raise additional working capital for the Group, the Directors acknowledge that until such time as the Group becomes profitable or additional working capital is raised, there remains uncertainty as to whether the Group will continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Note 2: Segment Information

AASB 8 requires a management approach under which segment information is presented on the same basis as that used for internal reporting purposes.

(a) Description of segments

For management purposes, the Group is organised into business units based on the critical activities to the group and most significant areas of expenditure. The operating segments are as follows:

(i) Project evaluation segment
(ii) Exploration segment
(iii) Corporate

Management monitors the expenditure levels of the segments against critical performance evaluations for the purpose of making decisions about resources allocation and performance assessment. Performance assessment is measured consistently with predetermined and static key performance indicators.

From a current geographical perspective the three reportable business segments operate in Australia. Should transfer prices between operation segments occur, they would be on an arm's length manner similar to transactions with third parties.

Operating segments are now reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker.

(b) Segment information provided to the Managing Director & CEO

Management has determined, based on reports reviewed by the Managing Director & CEO that are used to make strategic decisions, that the Group assesses the performance of operating segments based on a measure of adjusted EBITDA. As such this measurement excludes the effects of certain expenditure from operating segments as shown in the reconciliation of adjusted EBITDA below.

The segment information provided to the Managing Director & CEO for the reportable segments for the half-year ended 31 December 2011 is as follows:

Note 2: Segment Information (cont)

	Project evaluation	Exploration	Corporate	Total
6 months to 31 December 2011				
Segment revenue	-	-	1,651,493	1,651,493
Segment expenditure	(33,093,170)	(134,790)	(5,051,684)	(38,279,644)
Inter-segment expenditure	-	-	-	-
	(33,093,170)	(134,790)	(3,400,191)	(36,628,151)
Adjusted EBITDA	**(158,567)**	-	**(3,400,191)**	**(3,558,758)**
Capitalised	(32,934,603)	(134,790)	-	(33,069,393)
	(33,093,170)	(134,790)	(3,400,191)	(36,628,151)
6 months to 31 December 2010				
Segment revenue	-	-	976,107	976,107
Segment expenditure	(10,505,656)	(276,031)	(4,350,504)	(15,132,191)
Inter-segment expenditure	-	-	-	-
	(10,505,656)	(276,031)	(3,374,397)	(14,156,084)
Adjusted EBITDA	**(68,486)**	**-**	**(3,374,397)**	**(3,442,883)**
Capitalised	(10,437,170)	(276,031)	-	(10,713,201)
	(10,505,656)	(276,031)	(3,374,397)	(14,156,084)
Total segment assets				
As at 31 December 2011	98,590,819	13,065,441	39,646,443	151,302,703
As at 30 June 2011	67,696,574	12,181,617	74,021,335	153,899,527

Reconciliation of adjusted EBITDA to operating profit before income tax:

	Consolidated	
	2011	2010
Adjusted EBITDA	**(3,558,758)**	**(3,442,883)**
Finance Costs	(1,680)	(2,264)
Depreciation & amortisation	(101,404)	(111,809)
Share option expense	(741,115)	(1,006,664)
Realised exchange rate loss	-	14,104
Unrealised exchange rate loss	39,122	(166,343)
Impairment of assets available for sale	(59,007)	-
Loss before income tax	**(4,422,842)**	**(4,715,859)**

Note 3: Revenue

	Consolidated 6 months to	
	31 December 2011 $	**31 December 2010 $**
Revenue from continuing operations		
Other revenue		
Interest received	**1,501,493**	839,178
	1,501,493	839,178
Other Income		
Exchange rate gain – realised	-	14,104
Exchange rate gain/(loss) – unrealised	**39,122**	(166,343)
Other	**150,000**	136,929
	189,122	(15,310)

Note 4: Expenses

	Consolidated 6 months to	
	31 December 2011 $	31 December 2010 $
(a) Expenses		
Depreciation		
Depreciation – plant & equipment	**82,865**	93,082
Depreciation – motor vehicles	**9,745**	9,933
Depreciation – leasehold improvements	**8,794**	8,794
Total depreciation	**101,404**	111,809
Finance costs		
Interest expense	**1,680**	2,264
Total finance costs	**1,680**	2,264
Other expenses		
Accounting and other professional fees	**215,267**	22,989
Business development costs	**-**	18,714
Audit fees	**21,879**	19,002
Consultants fees	**388,816**	383,198
Employee benefits expense	**2,593,357**	2,684,749
Insurance	**49,548**	43,592
Legal fees	**430,703**	81,790
Promotion expenses	**10,377**	25,584
Share-based benefits expensed	**741,115**	1,006,664
Share registry and stock listing fees	**131,814**	114,272
Other expenses	**1,209,923**	956,614
Total other expenses	**5,792,799**	5,357,168
Development expenses		
Pilot plant expenses	**158,567**	67,345
Other projects	**-**	1,141
Total development expenses	**158,567**	68,486
Impairment expenses		
Write-down on assets available for sale	**59,007**	-
Total impairment expense	**59,007**	-

Note 5: Available-For-Sale Financial Assets

The following table presents the group's financial assets measured and recognised at fair value at 31 December 2011 and 30 June 2011.

At 31 December 2011	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Available-for-sale financial assets				
Equity Securities	667,576	-	-	667,576
Total Assets	**667,576**	**-**	**-**	**667,576**

At 30 June 2011	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Available-for-sale financial assets				
Equity Securities	739,102	-	-	739,102
Total Assets	**739,102**	**-**	**-**	**739,102**

The following table presents the changes in Level 1 instruments for the half-year ended 31 December 2011:

	Listed Equity Securities $
Opening balance at 30 June 2011	**739,102**
(Losses)/gains recognised in other comprehensive income	(12,519)
Impairment loss	(59,007)
Closing balance at 31 December 2011	**667,576**

Note 6: Deferred Exploration and Evaluation Expenditure

	Consolidated as at	
	31 December 2011 $	**30 June 2011 $**
Exploration and evaluation costs carried forward		
Balance at beginning of half-year	**77,837,834**	38,681,975
Capitalised expenditure - exploration & evaluation	**33,069,393**	39,910,883
Impairment of exploration expenditure	**-**	(5,991)
Transfer to assets held-for-sale	**(7,919)**	(749,033)
Balance at end of half-year	**110,899,308**	77,837,834

The exploration and evaluation costs in relation to each area of interest are carried forward as an asset where the Group:

- Has rights to tenure of the area of interest; and
- The exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest or; alternatively by its sales; or
- Exploration and evaluation activities in the area of interest have not at the end of the reporting period reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Note 7: Contributed Equity

Issues of ordinary shares during the half-year:

	Dec 2011 Shares	Dec 2010 Shares	**Dec 2011 $**	Dec 2011 $
Balance at 30 June 2011 (2010)	**367,980,342**	290,640,342	**176,163,635**	88,662,312
Employee options exercised	-	660,000	-	803,400
Private placement	-	75,000,000	-	90,000,000
Capital raising costs	-	-	-	(4,968,077)
Balance at 31 December 2011 (2010)	**367,980,342**	366,300,342	**176,163,635**	174,497,635

Note 8: 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 9: Dividends

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

Note 10: Related Party Transactions

The following options have been issued to Key Management Personnel during the 6 months ended 31 December 2011:

Recipient	Grant Date	Expiry Date	Exercise Price	Number of Options	Total Fair Value $	Expense at 31 Dec 11 $
G. Lockyer - CFO	15-Jul-11	16-Jul-14	$0.96	200,000	54,960	25,309
R. Brescianini - GM Exploration	15-Jul-11	16-Jul-14	$0.96	200,000	54,960	25,309
N. Graham - GM Operations & Technology	15-Jul-11	16-Jul-14	$0.96	500,000	137,400	63,271
J. Ganser - GM Projects	15-Jul-11	16-Jul-14	$0.96	500,000	137,400	63,271
S. Ward - Managing Director & CEO	25-Nov-11	24-Nov-14	$0.70	3,500,000	596,050	58,788
C. Tonkin - Non-Executive Director	25-Nov-11	24-Nov-14	$0.70	750,000	127,725	12,598
A. Losada-Calderon - Non-Executive Director	25-Nov-11	24-Nov-14	$0.70	400,000	68,120	6,719
L. Jones - Non-Executive Director	25-Nov-11	24-Nov-14	$0.70	750,000	127,725	12,598
L. Reynolds - Non-Executive Director	25-Nov-11	24-Nov-14	$0.70	750,000	127,725	12,598
S. Lu - Non-Executive Director	25-Nov-11	24-Nov-14	$0.70	1,000,000	170,300	16,797
Total				**8,550,000**	**1,602,365**	**297,258**

Note 11: Events occurring after the Reporting Date

(a) Changes to the Board of Arafura Resources Ltd

On the 1st of February 2012, Arafura announced the appointment of Mr Ian Kowalick as Non-executive Chairman, who replaces the interim Chairman Mr Chris Tonkin. Subsequent to this, on the 16th of February 2012, Arafura announced that Ms Loretta Reynolds, Mr Lloyd Jones, Mr Ian Laurance and Mr Terry Jackson were to retire from their Independent Non Executive Director positions with immediate effect. On the 16th of February 2012 the Managing Director and CEO resigned.

(b) Capital Raising

On the 22nd of February 2012, Arafura announced to its shareholders an offer to participate in a Share Purchase Plan to assist in funding ongoing work programs including environmental studies, mine planning and process flow sheet refinement. The offer is capped at $12 million and will be priced based on a 10% discount to the 5 day Volume Weighted Average Price prior to and including the offer closing date being the 19th March 2012.

(c) Sale of Available-for-Sale Financial Assets

On the 1st of March 2012, Arafura sold on market 23,842,000 fully paid ordinary shares in NuPower Resources Limited (ASX: NUP).

(d) Major Resource Upgrade at Nolans Bore

On the 12th of March 2012, the Group announced a major upgrade in JORC resources at Nolans Bore. The highlights of the resources upgrade are:

- The upgraded resource contains 46 million tonnes @ 2.5% REO for 1,150,000 tonnes of contained Rare Earths:
- This is an increase on 2008 resources of 52% in total tonnes and 36% in contained Rare Earths; and
- Measured and Indicated Resources total 25.3 million tonnes and account for 55% of the total resource.

Classification of total resources at Nolans Bore into Measured, Indicated and Inferred Resource categories is shown in the table below. In-situ resources of Rare Earths,

Phosphate and Uranium are also shown in table 1.

Table 1: Nolans Bore Resources as at 12 March 2012.

RESOURCES	TONNES (million)	RARE EARTHS REO %	TONNES REO	PHOSPHATE P_2O_5 %	TONNES P_2O_5	URANIUM U_3O_8 lb/t	TONNES U_3O_8
Measured	4.3	3.4	146,200	12	516,000	0.61	1,200
Indicated	21	2.5	525,000	12	2,520,000	0.41	3,990
Inferred	21	2.3	483,000	10	2,100,000	0.37	3,570
TOTAL	46	2.5	1,150,000	11	5,060,000	0.41	8,740

Numbers may not compute exactly due to rounding

Total in-situ identified resources of Rare Earths, Phosphate and Uranium at Nolans Bore have been expanded by 36%, 30% and 45% respectively, since the November 2008 resource estimate.

In the directors' opinion:

(a) the financial statements and notes set out on pages 10 to 25 are in accordance with the *Corporations Act 2001*, including

(I) complying with Accounting Standards, International Financial Reporting Standards, Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and

(b) At the date of this declaration, and as set out in Note 1(c), there are reasonable grounds to believe that Arafura Resources Limited will be able to pay its debts as and when they become due and payable.

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

Ian Kowalick
Chairman

Perth
14 March 2012

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INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE MEMBERS OF ARAFURA RESOURCES LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Arafura Resources Limited, which comprises the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Arafura Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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 2011 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*.

Emphasis of Matter

Without modifying our conclusion, we draw attention to Note 1(c) in the half-year financial report which indicates that Arafura Resources Limited incurred a net loss of $4,422,842 and net cash outflows of $34,957,384 during the half-year ended 31 December 2011. These conditions, along with other matters as set forth in Note 1(c), indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

BDO Audit (WA) Pty Ltd

BDO
Glyn O'Brien

Glyn O'Brien
Director

Perth, Western Australia
Dated this 14th day of March 2012