



# **ARAFURA RESOURCES LIMITED**

**ABN 22 080 933 455**

## **Half-Yearly Report** For the Period Ended 31 December 2008

### **CORPORATE OFFICE**

Level 4 & 11, 16 St Georges Terrace  
Perth, Western Australia 6000  
Australia

T: + 61 8 6210 7666  
F: + 61 8 9221 7966  
E: [arafura@arafuraresources.com.au](mailto:arafura@arafuraresources.com.au)

### **PROJECT & EXPLORATION OFFICE**

18 Menmuir Street  
Winnellie, Darwin  
Northern Territory 0820  
Australia

# CONTENTS

---

	<b>Page</b>
Directors' report	2
Interim financial report	
- Consolidated income statement	7
- Consolidated balance sheet	8
- Consolidated statement of recognised income and expense	9
- Consolidated cash flow statement	10
- Notes to the financial statements	11
- Directors' declaration	16
Independent auditors review report to members	17

# DIRECTORS' REPORT

31 DECEMBER 2008

---

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 2008.

## 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:

I J Laurance  
A J Stephens  
I G Muir  
I J Kowalick  
T R Jackson  
S Ward

## Review of operations

### (a) Corporate

In November, the company issued 26,933,989 fully paid ordinary shares at \$0.28 per share by way a non-renounceable rights issue to eligible shareholders on a basis of 3 new shares for every 5 shares held. Total money raised from this rights issue, net of costs was \$7.4 million.

During the period 11.5 million listed options were issued to employees and non-executive directors at an exercise price of \$1.19 vesting 31 December 2009 and expiring 31 December 2012.

In October the company signed an equity line of credit up to a total of A\$20 million. This facility has no debt, is entirely executable at the company's discretion, has no contractual requirement to draw down and has a 5 year availability from date of execution. A 5% commission is payable by the company on each advance at the time the advance is made. At balance date the company had not drawn down any amount on this facility.

### (b) Nolans Rare Earths-Phosphate Project

In November a revised resource statement was released indicating a 62.9% increase in total resources compared to the previous estimate of 18.6 million tonnes published in November 2005. This equates to an average 50% increase for in situ rare earths, phosphate and uranium, confirming Nolans as a deposit of global significance that will become a dominant participant in rare earths and fertiliser production. As a result the mine life is effectively extended to 30 years based on the previous rate of 20,000 tonnes REO per annum.

# DIRECTORS' REPORT

31 DECEMBER 2008

---

The demonstration plant has proven to be highly successful, achieving better than expected results in terms of grade and recovery. Nolans flotation has achieved a grade of better than 6% REO and 25% P<sub>2</sub>O<sub>5</sub> with recoveries for phosphoric acid ranging from 80% to 90%.

Rare earth carbonate production from the pilot plant is underway and samples are expected shortly. The initial quality assessment of carbonate has an acceptable specification for a saleable product. The production of samples will allow for close consultation with prospective rare earth customers and ultimately the establishment of rare earth off take agreements.

During the month of August a Heads of Agreement was signed with Incitec Pivot Ltd. (Incitec) to explore mutually beneficial opportunities between Arafura Resources and Incitec. Incitec supplies more than 50 per cent of Australia's agricultural nutrient needs and represents an excellent off take partner for Arafura's phosphoric acid product. Discussions are continuing regarding the location of co-located production facilities.

In November a Memorandum of Understanding (MOU) was signed with Inner Mongolia Bao Tao Steel Rare Earth Hi-Tech Co Ltd. Bao Tao Steel Rare Earth is a recognised leader in processing, separation and marketing of rare earth products. Under the MOU both parties agree to co-operate in exchanging information relating to the demonstration plant, technology transfer, the development of a joint global marketing strategy and exploring opportunities for developing rare earths projects globally.

## **(c) Exploration**

During the reporting period the Group reviewed its exploration business and took the decision to suspend all non-rare earths' exploration. The Group will instead focus its efforts on systematically exploring its Reynolds Range tenements, and on attracting suitable parties whose commodity interests are better aligned with Arafura's gold and iron-vanadium portfolio.

Arafura will also continue to identify and pursue additional rare earths exploration opportunities that are consistent with its growth strategy beyond the Nolans Project.

## **Matters subsequent to the end of the half-year**

### **(a) Strategic Investment in Arafura Resources Limited**

On 17 February 2009 the Board of Arafura Resources Limited agreed to undertake a strategic equity investment with a large scale and highly strategic Chinese partner.

# DIRECTORS' REPORT

31 DECEMBER 2008

---

The executed Letter of Intent with Jiangsu Eastern China Non-Ferrous Metals Investment Holding Co. Ltd, a subsidiary of the East China Exploration & Development Bureau (ECE), is to assist with the funding requirements of the current and future project development, exploration projects and growth opportunities.

Under the agreement ECE will subscribe for with Arafura agreeing to allot up to 15% of fully paid ordinary shares in Arafura Resources Limited (ASX: ARU) at an issue price of \$0.30 each, to a maximum amount of \$8.5 million within 40 business days, subject to the completion and satisfaction of legal and financial due diligence by ECE, as well as satisfaction of the conditions precedent as mutually agreed to, included but not limited to, Australian Foreign Investment Review Board approval and approval by Jinagsu Provincial People's Government. In addition ECE will be offered additional New Shares through a placement of Fully Paid Ordinary Shares at an issue price of \$0.40 each. The second placement may take ECE's total shareholding to 25% of total ordinary shares on issue.

Upon completion of each tranche of funding an ECE representative will be invited to the Arafura Resources Ltd. Board as a Director. Both appointments will be subject to shareholder ratification in line with Arafura's Constitution. The funds raised from ECE will be used to fund the ongoing work on the Bankable Feasibility Study for the Nolans Rare Earths Project.

## **(b) Non-renouncable rights issue shortfall placement**

In February 2009, pursuant to the prospectus dated 15 October 2008, the Directors issued 9,047,145 Fully Paid Ordinary Shares from the rights issue short fall shares for a total amount of \$2,533,204 (before costs).

## **(c) Cessation of Heads of Agreement**

The Heads of Agreement between Incitec Pivot Limited (IPL) and Arafura Resources Limited dated 22 August 2008 was terminated by IPL on 28 February 2009 following a review of priorities by IPL due to changes in business conditions.

# DIRECTORS' REPORT

31 DECEMBER 2008

---

## **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 6.

Signed in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to be 'AJ Stephens', with a horizontal line extending to the right.

**AJ Stephens**  
**Managing Director**  
Perth, Western Australia  
06 March 2009



BDO Kendalls

BDO Kendalls Audit & Assurance (WA) Pty Ltd  
128 Hay Street  
SUBIACO WA 6008  
PO Box 700  
SUBIACO WA 6872  
Phone 61 8 9380 8400  
Fax 61 8 9380 8499  
aa.perth@bdo.com.au  
www.bdo.com.au

ABN 79 112 284 787

6 March 2009

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

Dear Sirs

**DECLARATION OF INDEPENDENCE BY PETER TOLL TO THE DIRECTORS OF ARAFURA RESOURCES LIMITED**

As lead auditor of Arafura Resources Limited for the year ended 31 December 2008, 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 audit; and
- 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.

**Peter Toll**  
Director

*BDO Kendalls*

**BDO Kendalls Audit & Assurance (WA) Pty Ltd**  
Perth, Western Australia.

# CONSOLIDATED INCOME STATEMENT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

	Notes	Half-year	
		2008	2007
		\$	\$
<b>Revenue from continuing operations</b>	<b>3</b>	<b>232,617</b>	<b>341,615</b>
Other income	3	623,316	285,854
Employee benefits expense	4	(2,745,006)	(1,625,478)
Project feasibility and evaluation	4	(3,873,587)	(2,002,029)
Other expenses	4	(1,461,542)	(1,021,147)
Depreciation and amortisation	4	(117,218)	(59,608)
Finance costs	4	(12,074)	(11,533)
Impairment of assets	4	(776,732)	-
<b>Loss before income tax</b>		<b>(8,130,226)</b>	<b>(4,092,326)</b>
Income tax benefit		-	111,177
<b>Loss attributable to members of Arafura Resources Limited</b>		<b>(8,130,226)</b>	<b>(3,981,149)</b>
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per share:</b>			
Basic loss per share		(5.0)	(3.1)
Diluted loss per share		(5.0)	(3.1)

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

# CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2008

	Consolidated	
	31 December 2008 \$	30 June 2008 \$
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	6,582,201	14,829,511
Trade and other receivables	6,930	173,274
Prepayments	31,177	20,000
<b>Total current assets</b>	<b>6,620,308</b>	<b>15,022,785</b>
<b>Non-current assets</b>		
Available-for-sale financial assets	219,516	834,161
Property, plant and equipment	836,069	655,793
Deferred exploration, evaluation and development costs	5 21,824,340	14,657,744
<b>Total non-current assets</b>	<b>22,879,925</b>	<b>16,147,698</b>
<b>Total assets</b>	<b>29,500,233</b>	<b>31,170,483</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Borrowings	87,698	83,656
Trade and other payables	1,998,885	4,487,239
Provisions	125,008	32,177
<b>Total current liabilities</b>	<b>2,211,591</b>	<b>4,603,072</b>
<b>Non-current liabilities</b>		
Borrowings	66,599	41,446
<b>Total non-current liabilities</b>	<b>66,599</b>	<b>41,446</b>
<b>Total liabilities</b>	<b>2,278,190</b>	<b>4,644,518</b>
<b>Net assets</b>	<b>27,222,043</b>	<b>26,525,965</b>
<b>EQUITY</b>		
Contributed equity	6 44,432,523	37,033,668
Reserves	3,435,136	2,007,686
Accumulated losses	(20,645,616)	(12,515,389)
<b>Total equity</b>	<b>27,222,043</b>	<b>26,525,965</b>

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

# CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

	Half-year	
	2008	2007
Notes	\$	\$
Changes in the fair value of available-for-sale financial assets	(614,645)	(1,405,605)
Transfer in the fair value of available-for-sale financial assets to profit & loss	(723,869)	-
(Loss) for the half-year	(7,406,357)	(3,981,149)
Net (loss) for the half-year	(8,130,226)	(3,981,149)
<b>Net (loss) recognised directly in equity</b>	<b>-</b>	<b>(1,405,605)</b>
<b>Total recognised (loss) and expense for the year</b>	<b>(8,130,226)</b>	<b>(5,386,754)</b>

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

	Half-year	
	2008	2007
	\$	\$
<b>Cash flows from operating activities</b>		
Payments to suppliers and employees	(3,183,596)	(1,781,957)
Interest received	232,617	266,615
Payments for feasibility study	(4,407,806)	(1,554,445)
Government grant received	654,461	332,358
Other revenue	5,250	140,250
Income tax rebate	-	111,177
<b>Net cash (outflow) from operating activities</b>	<b>(6,699,074)</b>	<b>(2,486,002)</b>
<b>Cash flows from investing activities</b>		
Payment for property, plant and equipment	(312,961)	(302,475)
Proceeds from sale of available-for-sale financial assets	-	110,373
Payments for exploration and development	(8,699,644)	(2,088,607)
<b>Net cash (outflow) from investing activities</b>	<b>(9,012,605)</b>	<b>(2,280,709)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	7,464,369	18,053,997
Repayment of borrowings received	-	376,428
<b>Net cash inflow from financing activities</b>	<b>7,464,369</b>	<b>18,430,425</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(8,247,310)</b>	<b>13,663,714</b>
Cash at the beginning of the financial year	14,829,511	4,746,460
<b>Cash and cash equivalents at the end of the financial year</b>	<b>6,582,201</b>	<b>18,410,174</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

---

## **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 2008 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 2008 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) Going concern**

At 31 December 2008 the Group had cash assets of \$6,582,201 (30 June 2008: \$14,829,511) and working capital of \$4,435,949 (30 June 2008: \$11,460,043).

Whilst the Group has sufficient cash and assets to meet its current ongoing exploration commitments and administrative expenditure, the directors recognise the need to raise additional funds to meet working capital requirements into the future.

As announced on February 17 2009, the Company has entered into an agreement with Jiangsu Eastern China Non-Ferrous Metals Investment Holding Co. Ltd. to raise up to \$28.5 million in capital. This however is subject to approval from the Foreign Investment Review Board (FIRB), shareholder approval and due diligence by the Chinese Company. At this stage, the Company believes that there are no indicators to suggest that the approvals process would not be successful.

As such based on the known potential to raise additional working capital, the directors consider it appropriate the half-year report be prepared on a going concern basis.

## **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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

---

## Note 3: Revenue

	Half-year	
	2008 \$	2007 \$
<b>Revenue from continuing operations</b>		
Fees received	-	75,000
<i>Other revenue</i>		
Interest received	<b>232,617</b>	266,615
	<b>232,617</b>	<b>341,615</b>
<b>Other Income</b>		
Profit/(loss) on sale of investments	-	(27,127)
Profit/(loss) on disposal of tenement	<b>5,250</b>	-
Government grant	<b>616,816</b>	312,981
Employee incentive	<b>1,250</b>	-
	<b>623,316</b>	<b>285,854</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

## Note 4: Expenses

Half-year	
2008	2007
\$	\$

### (a) Expenses

#### *Depreciation*

Depreciation – plant & equipment	61,803	26,739
Depreciation – motor vehicles	43,114	29,879
Depreciation – leasehold improvements	12,301	2,990
Total depreciation	117,218	59,608

#### *Finance costs*

Interest expense	12,074	11,533
Total finance costs	12,074	11,533

#### *Other expenses*

Accounting and other professional fees	71,145	35,848
Business development costs	116,044	-
Audit fees	21,170	12,673
Consultants fees	158,971	20,045
Employee benefits expense	1,426,781	834,316
Insurance	22,619	28,767
Legal fees	137,314	21,343
Promotion expenses	142,979	215,211
Share-based benefits expensed	1,318,224	791,162
Share registry and stock listing fees	52,353	57,223
Other expenses	738,948	630,037
Total other expenses	4,206,548	2,646,625

#### *Development expenses*

Feasibility studies	857,671	1,469,445
Pilot plant	3,015,916	532,584
Total development expenses	3,873,587	2,002,029

#### *Impairment of assets*

Exploration & evaluation	52,863	-
Available-for-sale financial assets	723,869	-
	776,732	-

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

## Note 5: Deferred exploration, evaluation and development costs

Half-year	
2008	2007
\$	\$

### Exploration, evaluation and development costs carried forward

Balance at beginning of half-year	<b>14,657,744</b>	5,528,916
Capitalised exploration expenditure	<b>1,160,213</b>	1,616,894
Capitalised evaluation expenditure <sup>(a)</sup>	<b>4,962,267</b>	-
Capitalised development expenditure <sup>(a)</sup>	<b>1,096,979</b>	-
Impairment of exploration expenditure	<b>(52,863)</b>	-
Balance at end of year	<b>21,824,340</b>	7,145,810

(a) An assumption of the going concern of the Group has been made in relation to the future recoverability of evaluation and development expenditure. (Refer to note 1: *Basis of preparation of half-year report* (b) going concern).

## Note 6: Contributed equity

### Issues of ordinary shares during the half-year

	2008 Shares	2007 Shares	2008 \$	2007 \$
Balance at 01-Jul 2008 (2007)	<b>157,194,500</b>	121,933,670	<b>37,033,668</b>	17,279,525
Employee options exercised	-	100,000	-	73,103
Listed options exercised	<b>5,000</b>	3,281,907	<b>650</b>	426,648
Rights issue	<b>26,933,989</b>	-	<b>7,541,517</b>	-
Private placement	-	18,691,500	-	18,691,500
Capital raising costs	-	-	<b>(143,312)</b>	(1,068,565)
Balance at 31-Dec 2008 (2007)	<b>184,133,489</b>	144,007,077	44,432,523	35,402,211

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

---

## **Note 7: 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 8: Dividends**

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

## **Note 9: Events occurring after the balance sheet date**

In February 2009, pursuant to the prospectus dated 15 October 2008, the Directors issued 9,047,145 Fully Paid Ordinary Shares from the rights issue short fall shares for a total amount of \$2,533,204 (before costs).

The financial effects of the above transaction have not been brought to account at 31 December 2008. The operating results, assets and share capital will be brought to account from 28 February 2009.

## DECLARATION BY DIRECTORS

In the directors' opinion:

- (a) the financial statements and notes set out on pages 6 to 15 are in accordance with the *Corporations Act 2001*, including
  - (i) comply with Accounting Standards, Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - (ii) give a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- (b) 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.



I J Laurance  
Chairman  
06 March 2009

## **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 balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and 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 consolidated 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 establishing 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 Interim and Other Financial Reports 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 consolidated entity's financial position as at 31 December 2008 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*.

## 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 2008 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.

### *Material Uncertainty Regarding Continuation as a Going Concern*

Without qualifying our conclusion, Arafura Resources Limited incurred a net loss of \$8,130,226 and had net cash outflows from operating activities of \$6,699,074 during the half year ended 31 December 2008. These conditions, along with other matters as set forth in Note 1 (b), indicate the existence of a material uncertainty which may cast doubt about the entity's ability to continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business.

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

*BDO Kendalls*  


### **Peter Toll**

Director

Signed in Perth, Western Australia  
Dated this 6<sup>th</sup> day of March 2009.